ALJ/BDP/cac

Decision 90 01 016 JAN 9 1990

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 authority to increase rates charged for gas service based on test year 1990 and to include an attrition allowance for 1991 and 1992.	ORIGINAL Application 88-12-047 (Filed December 27, 1988)
And Related Matter.	I.89-03-032 (Filed March 22, 1989)

(See Appendix A for List of Appearances.)

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INTERIM OPINION

I. Summary of Decision

This decision authorizes Southern California Gas Company (SoCalGas or company) to increase its base revenues for 1990 by $121.4 million or 3.6% of total revenues.

In a separate decision (D.) 89-11-068, the Commission authorized SoCalGas an overall rate of return of 10.75% based on a return on common equity of 13.0% for test year 1990. This rate of return is reflected in the above revenue increase.

The Commission, with some exceptions, grants SoCalGas' request for increased operating and maintenance expenses for its underground storage, transmission, and distribution departments because of the need to properly manage a growing system that has increased maintenance requirements. Also, the Commission allows for increased capital funding needs for gas system additions.

However, the Commission reduces SoCalGas' request for increased Administrative and General expense because this is an area of expense that is growing rapidly, and the Commission believes that the utilities can better control these expenses by reallocating program costs to stay within a reduced budget.

Lastly, the Commission reaffirms its commitment to conservation and demand-side management programs and authorizes a 1990 budget which increases current levels of expenditure by nearly 40%. Included in the 1990 budgeted amount of $54.8 million for conservation programs is $20.5 million for a redesigned Direct Assistance Program to offer low income, elderly, and disabled customers a variety of services aimed at reducing their energy usage and their energy bills.

This proceeding has been left open to consider three major issues: (1) the company's move to a new headquarters building; (2) its proposed Southern System Expansion which will allow it to receive more gas into its system; and (3) the Commission proposes to examine the need for additional Research, Development, and Demonstration Programs related to increasing environmental quality and conservation efforts in southern California.

II. Overview of the Proceeding

This proceeding was assigned to Commissioner Frederick R. Duda.

On December 27, 1988 SoCalGas filed Application (A.) 88-12-047 to increase gross revenues from base rates in 1990 by $153.740 million or 4.8% annually over estimated 1989 authorized rates. According to SoCalGas, the requested increase is needed to cover the cost of providing service to customers and reflects the impact of customer growth and inflation on labor requirements, operating and maintenance expense, gas system additions, and the cost of borrowed funds. In addition, SoCalGas requests authority to file for attrition rate adjustments for 1991 and 1992 to reflect the effects of inflation and changes in the cost of borrowed funds.

Following conclusion of the hearing on Results of Operations, the comparison exhibit, Exhibit 200, was issued on August 16, 1989. This exhibit shows that SoCalGas' original request for a revenue increase of $153.740 million was reduced to $134.620 million.

A prehearing conference was held February 6, 1989. Public witness hearings were held April 14, 1989 in Los Angeles; May 1, 1989 in Riverside; May 2, 1989 in Santa Ana; May 3, 1989 in Bakersfield; and May 4, 1989 in Santa Barbara and Ventura. Evidence was taken in Los Angeles and San Francisco during 35 days of hearings commencing April 26, 1989 and concluding on July 21, 1989. Update hearings were held on November 9 and 14, 1989.

Briefs were filed by SoCalGas, the Commission's Division of Ratepayer Advocates (DRA), Southern California Edison Company (Edison), Southern California Utility Power Pool and Imperial Irrigation District (SCUPP/IID), Pacific Gas and Electric Company (PG&E), the International Brotherhood of Electrical Workers, AFL-CIO (Union), and the California Energy Commission (CEC). Opening briefs were filed on September 5, and closing briefs were filed on September 20, 1989.

On December 1, 1989, the ALJ's proposed decision on this matter was filed with the Docket Office and mailed to all parties of record pursuant to Rule 77 of the Commission's Rules of Practice and Procedure.

Comments on the ALJ's proposed decision were filed by SoCalGas, DRA, the Commission's Women and Minority Business Enterprise Program Staff, CEC, Edison, and SCUPP/IID.

Having reviewed the comments of all parties, we have made changes to the ALJ's proposed decision where appropriate.

Three major issues were held over for later hearing and decision.

A. <u>Headquarters Costs</u>

In its application, SoCalGas included all costs related to its planned move in 1991 to a new headquarters building, known as Southern California Gas Center. On April 24, 1989, the assigned administrative law judge (ALJ) issued a ruling that all costs related to the new building would be considered later, in a separate phase of this proceeding. Therefore, this decision addresses only the costs related to the lease-back and occupancy of the existing headquarters building located at Flower Street which was sold. The next phase, to be heard in early 1990, will consider all costs related to the move and occupancy of the new headquarters building in 1991.

B. Southern System Expansion

Pursuant to the Assigned Commissioner's ruling issued on September 11, 1989, hearings will be held in a separate phase of this proceeding to address SoCalGas's proposal to reprioritize the capital expenditures adopted in this decision, to permit the company to expand its system and to accept an additional 200 million cubic feet of gas per day from El Paso Natural Gas Company.

Hearings on this phase shall be completed early in 1990. Pending completion of hearings on the Southern System Expansion, SoCalGas shall commit the $29,823,663 for 1990 adopted in this decision for the pipeline replacement program (Exhibit 30). Such capital expenditures should not be deferred for the reason that the Commission has to issue its decision on the Southern System Expansion phase.

C. Research, Development, and Demonstration Programs

The Commission believes that there may be a need for research programs related to conservation and to improving the air quality in southern California. The Commission has directed that there be further hearings in 1990 with regard to the need for research programs to address these matters.

III. Productivity

SoCalGas' productivity and cost reduction efforts enabled the company to reduce its 1990 revenue requirement by $85.3 million. These productivity gains reflect cost savings and cost avoidances. Based on its own total productivity study, DRA recommended no further adjustment to SoCalGas' revenue requirement.

IV. Results of Operations

A. Cost of Gas and Operating Revenues

There is no dispute between SoCalGas and DRA regarding operating revenues since DRA finds the company's estimates are reasonable. The $84.764 million difference reflected in the Comparison Exhibit is attributable to the impact of differences in other SoCalGas and DRA estimates.

B. Miscellaneous Revenues

DRA agrees that SoCalGas' miscellaneous revenues estimate of $10.714 million is reasonable.

SoCalGas and DRA agree that the abandoned Ten Section storage field settlement revenues net of certain expenses should be credited to miscellaneous revenues. SoCalGas agrees with the DRA recommendation to amortize over three years $222,000 of miscellaneous revenue ($74,000 annually) to reflect the net revenues associated with Ten Section.

SoCalGas and DRA also agree to include in miscellaneous revenues $110,000 of intervenor funding per D.89-03-018. The intervenor funding will be adjusted in the first year of attrition, 1991. Thus, the miscellaneous revenues estimate of $10.714 million should be reduced to $10.678 million.

In addition, SoCalGas requested that it be authorized to increase its Reconnection Fee from $5.00 to $16.00 and to add a new Service Establishment Fee of $5.00 for all classes of customer--residential, commercial, and industrial.

SoCalGas states that the Service Establishment Fee is being proposed to offset some of the cost of establishing a new account and to shift the burden of the expense from general ratepayers to the users of this service. According to SoCalGas, the concept of charging for service establishment is not new to California utility customers. Several utilities have employed the charge for years with minimal negative reaction from their customers.

A reconnection fee is paid to have a meter previously closed for non-payment turned back on. According to SoCalGas, increasing this fee to $16.00 will offset the majority of the cost involved in restoring service and also will shift the burden of the expense to the user of the service.

SoCalGas further states that the collection of these fees will not reduce Customer Services' forecasted expenses, but will increase the company's miscellaneous revenue by $5.3 million annually. These estimates are reflected in the Results of Operations.

DRA did not object to the company's request. We believe it is reasonable that the burden of the costs at issue should be shifted to the users of these services. Accordingly, we will adopt SoCalGas' request.

C. Operation and Maintenance (O&M) Expenses

1. Clearing Accounts

a. Account 163 -- Stores Expense

SoCalGas requested an increase of $37,000 for additional overtime hours to fill compressed natural gas (CNG) cylinders. DRA recommended a $74,000 decrease.

As a result of the company's decision to discontinue use of dual fuel vehicles caused the continued maintenance of 44 CNG compressors at various locations throughout the service territory was no longer cost effective. Since SoCalGas has a continuing need to fill CNG cylinders to support meter bypass operations, a centralized facility for filling the cylinders was established at the general warehouse. The field divisions receive scheduled deliveries from the warehouse, most often once a week and least often once every two weeks. According to SoCalGas, the inability to maintain a ready supply of CNG cylinders would needlessly force customers and ratepayers to wait for service restoration, and incur additional field work and overtime costs for service restoration because cylinders did not arrive as scheduled.

DRA offers three reasons for its recommendation. First, the narrative description of this activity furnished by the company made it clear that there was a reduced need for overtime. Second, the company failed to provide any evidence of the need for overtime requirements. Third, no evidence was presented by the company explaining why, if the existing staff happened to be too busy, the cylinders could not be filled at a more convenient time, even on another day.

We note that the field divisions have to depend on the central warehouse for their supplies of CNG cylinders. Deliveries to the divisions are mostly once a week. The divisions need a regular supply of CNG cylinders to provide an important service to its customers. This is not a discretionary item. Therefore, we will not adopt DRA's recommended reduction. Since SoCalGas has not fully explained the need for overtime, we conclude that SoCalGas' request for $37,000 to cover overtime should not be adopted.

2. Introduction to Underground Storage and Transmission Accounts

For underground storage expense, SoCalGas' test year estimate is $20.137 million. DRA's estimate is $18.943 million. For transmission, SoCalGas' estimate is $26,715 million. DRA's estimate is $24,224 million. The total difference between SoCalGas' estimate and DRA's estimate for underground storage and transmission expense is $3.685 million.

SoCalGas notes that its estimating method for underground storage and transmission does not use the 1987 recorded year expenses as a base from which to make adjustments. Rather, a "zero-based" method is employed. The direct cost estimates were prepared by identifying work required to comply with company procedures. Costs were then assigned to each component of work identified. This budget process was used only for transmission and storage expenses.

SoCalGas argues that DRA's misunderstanding of the zero-based budget concept resulted in its proposed $770,000 adjustment for productivity gains realized in prior recorded years. DRA assumed that productivity adjustments were not reflected in the test year estimates.

DRA states that, early in the investigation, it noticed that in certain instances previously identified productivity savings did not appear to be reflected in the detailed 1990 workpapers; certain accounts remained constant from year to year, even though productivity savings should have been incorporated. DRA issued many data requests trying to clarify this problem. As far back as September 1988, DRA was aware of a problem and was actively seeking a solution. When SoCalGas failed to adequately explain the problem, DRA assumed that the company had simply failed to reflect the savings. This was a logical assumption to make, since other company accounts had been reduced, accurately reflecting the previously identified savings. Not until SoCalGas witness Harlan testified on May 11, 1989 did DRA learn that the company, in certain isolated instances, exactly offset the savings with new, unidentified projects. Because none of these details were initially provided, all that DRA could see were accounts that remained constant from one year to the next.

DRA believes that the decision in this general rate case must send a clear signal to the company that it cannot provide workpapers that fail to identify and explain all new projects and expenses. The DRA recommended disallowance totals $770,000.

We agree that if a true zero-based estimating procedure was used, then the prior year savings would be inherently reflected in such an estimate and would not be shown as a separate item in 1990. Also, we realize that SoCalGas' productivity showing was separate, and, apparently, the connection between that showing and the zero-based estimates was not made. However, that is not the point.

We note that the record shows that DRA's witness tried several times to get an explanation from the company. The transmission and storage workpapers showed no productivity savings for 1990, whereas workpapers for other areas did show such savings. The DRA witness' conclusion was understandable. SoCalGas should have taken the trouble to ascertain what the problem was and provide the necessary background information to clarify the misunderstanding. It is the company's responsibility to take all necessary steps, including informal discussion with DRA's witnesses, to make sure that DRA understands the company's workpapers. The confusion could have been avoided by open communication between the technical staff of DRA and the company. Apparently, SoCalGas chose to do no more than provide formal responses to DRA's data requests.

We believe that SoCalGas has not been fully responsive to the need to provide necessary explanation and back-up so that its workpapers could be clearly understood. Therefore, we conclude that SoCalGas has failed in its burden of proof. We will adopt DRA's adjustments related to productivity savings, with some modifications, as set forth below.

3. Underground Storage Expenses

a. Account 814 - Supervision and Engineering

Account 814 includes labor and non-labor expenses associated with well operations and management of the storage fields. SoCalGas' estimate is $1.933 million while DRA's estimate is $1.911 million, a difference of $22,000.

DRA contends that SoCalGas eliminated six positions in 1987 but reflected elimination of only five positions in its test year workpapers. Therefore, DRA recommends a part-year adjustment of $22,000 for a Staff Petroleum Engineer.

SoCalGas states that its workpapers identified five full-year and one part-year positions that were eliminated in 1987. Its estimates reflect removal of six positions. DRA's recommended adjustment is the result of a misunderstanding of SoCalGas' workpapers. SoCalGas did not disregard prior years' productivity savings when formulating its test year estimates using the zero-based budget method.

We conclude that, notwithstanding SoCalGas' zero-based method, it is SoCalGas' responsibility to point out clearly to DRA that it had eliminated the sixth position. SoCalGas has failed to meet its burden of proof.

We will adopt the DRA adjustment of $22,000.

b. <u>Account 818 - Compressor Stations</u>

SoCalGas' estimate is $3.272 million compared to DRA's estimate of $3.110 million, a difference of $162,000. The $162,000 DRA adjustment includes $116,000 for productivity savings and $46,000 related to shift supervisors' labor while the Coastal Compressor Station is on injection mode.

SoCalGas notes that the capacity of the storage fields is 112.7 Bcf. The target storage volume for the upcoming season is 92 Bcf. Based on the estimated volume in the storage fields for the test year, the Coastal Compressor Station will operate on injection mode in 1990 at least to the same extent as it did in 1987.

DRA points out that the facility operated more during 1987 than in recent previous years. Therefore, DRA argues that the recorded expense level for that year would also be abnormally high. DRA believes that there is no justification for an additional $23,000 on top of what was already an unusually high year. Rather, the 1987 expense level for this account should be reduced by $23,000, thereby bringing the unusually high recorded expense down to a "normal" level. Accordingly, DRA contends that a total of $46,000 should be disallowed from SoCalGas' funding request.

The test year is a forecast of expected future operations of SoCalGas for 1990. For test year ratemaking, if historical data is not representative of future operations, then appropriate adjustments should be made to reflect expected operations. In this instance, DRA's normalized estimate will not recognize the increased storage operations expected in the test year. Therefore, we conclude that SoCalGas' request for an increase of $23,000 over recorded 1987 is reasonable.

Next, we will address the issue of the mistake in SoCalGas' workpapers related to Account 818.

The amount of $454,000 for productivity savings shown on page two of the Comparative Exhibit is made up as follows:

Account 818	$116,000
Account 832	300,000
Account 836	38,000
Total	$454,000

During the hearing, SoCalGas argued that included in the $116,000 for Account 818 is $95,000 related to an error in its workpapers resulting from double counting of productivity savings. DRA objected to the correction being made. SoCalGas provided an explanation why it took so long for the error to be detected. The ALJ ruled that the error should be corrected. We will adopt that correction. Accordingly, the adopted disallowance related to productivity savings included in Account 818 is reduced to $21,000.

c. Account 823 - Gas Losses

Account 823 includes the cost for gas inventory losses resulting from well leakage, surface leakage, and blowdowns at the storage fields. Also included in this account are the amortized after-tax dollars for gas migration losses. SoCalGas' estimate is: $91,000 for migration losses; $338,000 for well incidents; $121,000 for surface losses; and $122,000 for blowdowns, for a total of $672,000. These are general rate case expense items.

DRA recommends that recovery of Account 823 expenses should be moved to the annual cost allocation proceeding (ACAP).

SoCalGas does not object to DRA's recommendation if there is a method of ensuring recovery of these expenses from January 1, 1990 until the date they are transferred to the ACAP proceeding.

Both parties agree that a memorandum account should be provided effective January 1, 1990 to accumulate costs incurred in 1990 prior to transfer to the ACAP.

However, DRA notes that in the current ACAP proceeding, DRA requested the company to "double-check" that the blowdown losses estimated in the general rate case (associated with storage facilities) are not also included in the ACAP (company-use fuel). In responding to this request, the company agrees that $122,000 related to blowdown losses was included in the current ACAP and should be deleted from its $672,000 general rate case estimate.

Next, DRA objects to SoCalGas' request for inclusion in the proposed memorandum account of migratory gas losses for the period 1983 through 1987.

SoCalGas points out that in Exhibit 10, Prepared Direct Testimony of T. C. Harlan on Gas Losses, Question and Answer 14, the company does address Account 823 gas losses and explicitly states that total gas migration losses from 1983 to 1987 amount to $237,000, one-third of which, or $91,000, is included in the test year estimate. SoCalGas' test year 1983 decision (D.82-12-054, p. 66.) provides that because migration losses are difficult to estimate, they shall be recovered on a retroactive basis in each rate case using the latest recorded data. As SoCalGas' test year 1990 rate case was filed in 1988, the latest recorded data was through the period 1987.

We agree that in the 1983 test year decision (D.82-12-054) the Commission authorized SoCalGas to recover migration gas costs in its general rate case on a retroactive recorded basis because of the unusual problem in estimating these losses. Further, in the next general rate case proceeding for test year 1985 (D.84-12-069, p. 35), the Commission allowed SoCalGas recovery for migration losses. In that proceeding, SoCalGas amortized recorded losses for 1981 and 1982 over a two-year period and rate recovery for those costs was obtained in 1985 and 1986. From this, it may be inferred that the lag between the recorded expense year (1981) and the rate recovery year (1985) is four years. Therefore, taking into account the four-year lag, in test year 1990 SoCalGas should be entitled to recover the recorded expense for migration losses for 1986 onwards, but not from 1983 as requested. We arrive at this conclusion because from 1985 onwards there was a component for migratory gas expense built into rates.

In summary, we conclude that, since we are transferring Account 823 - Gas Losses to the ACAP, SoCalGas should be allowed an interest bearing memorandum account to accrue recorded 1990 gas losses (excluding blowdown losses which are already in the ACAP) until the transfer is made to the ACAP. Also, based on the above discussion, SoCalGas may enter 1986, 1987, 1988, and 1989 recorded migratory gas losses, reduced for tax effect, in the memorandum account, since we are now moving recovery of these expenses from the general rate case to the ACAP.

The procedure for transferring Account 823 gas losses to the ACAP shall be as follows:

1. Effective January 1, 1990, an interest bearing memorandum account will be established and charged with the recorded gas losses from underground storage well incidents and surface losses for the first nine months of 1990.

2. The interest bearing memorandum account will also be charged with gas migration losses for recorded years 1986, 1987, 1988, and 1989, less the tax effect. Recorded migration losses for 1988 and 1989 would normally be recovered in SoCalGas' next general rate case, but it is only reasonable now to allow recovery for the

latest available recorded migration losses in each annual ACAP.

3. In March 1990, SoCalGas will file its annual ACAP application and include an estimate of the interest bearing memorandum account balance as of September 30, 1990. This estimate will include the recorded costs associated with gas migration losses for 1986 through 1989 and an estimate of the underground storage well incidents and surface gas losses for the first nine months of 1990. The ACAP application will also include an estimate of the underground storage well incidents and surface gas losses along with all other gas losses for the forecast period.

4. Subject to No. 5 below, the interest bearing memorandum account will terminate as of September 30, 1990.

5. In October of 1990, SoCalGas will "true up" the difference between recorded underground storage well incidents/surface gas losses and the estimate adopted in the ACAP for the first nine months of 1990. This difference will be included in the estimate of gas losses in the March 1991 ACAP application.

6. Migration losses will continue to be recovered on an "as recorded" basis and included in the gas loss estimate in the following ACAP.

7. All costs included in the interest bearing memorandum account will be subject to a reasonableness review by DRA prior to recovery in the upcoming ACAP. This provision will ensure that all SoCalGas' gas loss estimates are adequately scrutinized before recovery is authorized.

Accordingly, since we are providing the above memorandum account in 1990 and allowing for recovery of migration losses from 1986 onwards, we will reduce SoCalGas' rate case request by $672,000.

d. <u>Account 832 - Maintenance of Wells</u>

The difference between SoCalGas and DRA relates to $300,000 in productivity savings.

SoCalGas states that the entire $300,000 savings was realized in 1988 and was reflected in SoCalGas' productivity summary workpapers for that year. Of this $300,000, $150,000 is related to the rebidding in 1988 of oil field service and supply contracts. Due to the zero-based budget method employed to estimate underground storage and transmission expense, the $150,000 in productivity savings achieved in 1988 is not explicitly identified in the test year estimate; but it is implicitly included.

DRA's position is the same as for the productivity savings discussed above. SoCalGas did not sufficiently explain its workpapers related to its zero-based budgeting method.

As we stated previously, it is SoCalGas' responsibility to make sure that DRA understands the company's workpapers. We conclude that SoCalGas has not met its burden of proof. Accordingly, we will adopt the DRA recommended adjustment of $300,000.

e. <u>Account 836 - Purification Equipment</u>

SoCalGas' estimate is $617,000. DRA recommends a reduction of $38,000.

SoCalGas notes that its Productivity Summary identified cost savings of $38,000 resulting from the elimination of a contractor for brine disposal at Honor Rancho. SoCalGas did not include this cost in its test year estimate. SoCalGas argues these productivity savings are reflected in the test year estimate in that the zero-based budget method implicitly reflects prior years' productivity savings. Therefore, SoCalGas does not agree with DRA's downward adjustment of $38,000.

For the reasons set forth previously related to the company's responsibility to explain its workpapers, we will adopt DRA's adjustment of $38,000.

4. Transmission Expenses

a. Account 850 - Supervision and Engineering

SoCalGas' estimate is $7.190 million. DRA recommends a reduction of $96,000. Account 850 contains labor and other expenses related to the overall direction of operating and maintaining the transmission system.

SoCalGas contends that DRA has proposed a reduction in existing personnel by recommending a $50,000 disallowance for personnel administration. Employment activities (i.e., acceptance of applications, testing, evaluation interviewing, etc.) were once performed by each support services supervisor in the Transmission Department. Labor and related expenses were charged to a human resources functional account. However, these tasks are human resources' functional responsibility and SoCalGas has reassigned the responsibility for physically performing these tasks. All employment functions will now be performed by employment representatives and the time freed up for support services supervisors will be utilized for other transmission related duties.

According to SoCalGas, the labor and related expenses that were once charged to human resources for six support services supervisors must now be absorbed by a transmission functional account to make up the total labor expense for these six positions. The full salary for six support services supervisors will now be funded by the Transmission Department. Therefore, SoCalGas believes that DRA's proposed $50,000 disallowance means insufficient funding for labor expense and a reduction in personnel.

DRA states that based on the fact that these duties were being transferred elsewhere, DRA initially investigated whether a decrease in Account 850 was warranted. However, DRA agreed with SoCalGas that the loss of the personnel duties would be offset by an increase in other work. Therefore, DRA is not recommending a decrease in this account; DRA is simply recommending that the company not get the requested increase.

DRA notes that at several points during the cross-examination of SoCalGas' witness Harlan on May 11, 1989, the company made the statement that DRA is proposing to eliminate or reduce existing positions. However, DRA has not proposed any reduction to existing positions. DRA is recommending that a proposed increase be disallowed.

We conclude that SoCalGas has not justified its request for another $50,000 for its Transmission Department. SoCalGas has not explained that there would be increased activities in its Human Resources Department that would offset the fact that its human resources' budget will no longer be charged for these activities. The company's request for a $50,000 increase should be denied.

b. Account 853 - Compressor Station <u>Labor and Expenses</u>

DRA recommends an adjustment of $270,000 for prior year productivity savings, allegedly, not reflected in the test year estimate.

SoCalGas states that its Productivity Summary identifies the estimated annual cost savings of $270,000 as a result of instrumentation of the main line compressors at Blythe. In preparing the estimated budget using the zero-based method, the dollars related to this type of repair would not be included because of the productivity savings in prior years. Additionally, there was no change in the estimates for 1989 and 1990, and the productivity savings were not identified in the work papers showing the offsetting activities and dollars.

SoCalGas notes that DRA's conclusion that the $270,000 is not included in the test year estimate is based on the assumption that the 1990 budget does not include productivity savings achieved in prior years. SoCalGas insists that productivity from prior years is implicitly included in its 1990 budget.

Since it is SoCalGas' responsibility to make sure that its workpapers are clearly understood, we will adopt DRA's proposed adjustment of $270,000.

c. Account 859 - Miscellaneous Expenses

SoCalGas' estimate is $4.647 million. DRA recommends a reduction of $2.125 million. A major component of the difference is $1.075 million for the ARCO pipeline lease. The remaining $1.050 million deals with environmental fees.

(1) The ARCO Pipeline Lease

In addition to SoCalGas and DRA, briefs on this issue were filed by Southern California Edison Company (Edison) and Southern California Utility Power Pool and Imperial Irrigation District (SCUPP/IID).

SoCalGas proposes to lease a pipeline owned by ARCO. The lease expense, including operation and maintenance, is estimated at $1.075 million.

SoCalGas states that it intends to continue its efforts to obtain a lease from ARCO for the pipeline which is called the Casitas/Cuyama system. Negotiations are still pending.

DRA recommends that the company's request be disallowed since the company is unlikely to obtain a lease in the future. Since July 1985, SoCalGas has been attempting unsuccessfully to purchase or lease the pipeline from ARCO. DRA argues that if the Commission grants the request, since the vast majority of the pipeline capacity is used to supply Edison's Mandalay steam plant, the cost of any lease should not be born by core customers.

Edison strongly disagrees with SoCalGas' contention that these costs are necessary to continue service to Edison's Mandalay Generating Station. Edison argues that these costs should not be approved because ARCO continues to provide adequate transportation service to the approximately 350 customers in the Cuyama area and to Edison's Mandalay Generating Station. Edison points out that SoCalGas' desire is to increase the capacity of the ARCO pipeline through operation of the pipeline at greater pressure because the load growth is taking place in the San Joaquin Valley, with the enhanced oil recovery (EOR) cogeneration customers. If the Commission does approve the costs of the ARCO lease, Edison recommends that the Commission expressly find that the pipeline capacity increase is for SoCalGas' operational flexibility and therefore benefits all customer classes, and in particular, EOR customers.

SCUPP/IID share the same concerns as DRA and Edison.

We note all parties' concerns regarding the cost allocation of this project. However, we are not persuaded that SoCalGas has made significant progress in its negotiations with ARCO. Therefore, we should not allow for funding in this proceeding.

(2) <u>Environmental Fees</u>

Another element of Account 859 deals with environmental fees. SoCalGas estimated increased test year 1990 environmental fees of $2 million, an increase of $950,000. The difference between the company and DRA on environmental fees is $1.050 million.

SoCalGas contends that due to pending legislation relating to air quality, the increase of $950,000 recommended by DRA will not cover the fees to be assessed by air quality management districts in the test year. Also, the DRA estimate does not include estimates for Acid Disposition or Clean Air Act fees. These estimated fees are expected to be assessed in 1990, but are not included in DRA's estimate.

SoCalGas acknowledges that its original estimate was too high. However, SoCalGas points out that there is a high degree of uncertainty regarding environmental fees and that its estimate reflects SoCalGas' understanding that agencies other than the South Coast Air Quality Management District (SCAQMD) will begin assessing substantial environmental fees. SoCalGas would welcome such a memorandum account with its objective being dollar-for-dollar recovery of environmental fees imposed by governmental agencies.

DRA argues that the company's estimate is based on inappropriate assumptions, does not incorporate the latest recorded information, ignores evidence on the hearing record, contains a calculation error which results in a double counting of certain costs, and is in part based on information which is neither quantifiable or verifiable.

We conclude that it is not possible to make a fair estimate of environmental fees at this time. However, we will adopt DRA's recommended increase of $950,000 over recorded 1987 which will provide $1,165,000 for all environmental fees. Given the difficulty in fairly estimating these costs, we will provide SoCalGas with a non-interest bearing memorandum account to record any difference, either upward or downward. The difference between recorded and adopted expense will be amortized in SoCalGas' next general rate case. This memorandum account should be terminated at the end of the test year 1990 rate case cycle.

5. Distribution Expenses, Exclusive of <u>Customer Service and Engineering</u>

SoCalGas' test year estimate of distribution expenses is $94.633 million. DRA is recommending a reduction of $5.178 million.

a. <u>Trending</u>

DRA employed a trending method to arrive at its recommended disallowance of about $4.4 million. After reviewing each distribution functional account, DRA concluded that the expense/productivity course in certain accounts suggested that application of a trending method to those accounts would yield a more reliable test year forecast than the estimating method used by SoCalGas.

According to DRA, SoCalGas' method is problematic because the company relied on the expense activity of one year as a basis for estimating expenses for the test year. "Because there is no monolithic distribution expense year, one year cannot be claimed to be representative". Therefore, the more reliable approach is to look at expense activity over the period of several years.

DRA notes that SoCalGas' distribution system will grow from 38,219.42 miles of main in 1987 to 40,309.39 miles in 1990, a growth rate of only 5.47%. On the other hand, SoCalGas proposes a growth of 8.64% in total labor from $67,765,000 in 1987 to $73,623,000 in 1990. Therefore the growth in labor exceeds expected system growth. DRA contends that when the growth rate of payroll exceeds that of the system, the Commission should view SoCalGas' request with skepticism.

DRA accepted SoCalGas' test year estimates in all but eight accounts. After analyzing each distribution functional account, DRA determined that SoCalGas' estimate in seven accounts did not accurately reflect the impact of productivity. Therefore, DRA recommends a disallowance of $4,438,000 for those seven accounts based on its trending method. In developing its trending method, DRA determined that a reasonable measure for production in each account was either dollars per mile of distribution main or dollars per customer.

SoCalGas notes that it based its test year estimates on 1987 recorded expenses and on 1988 and 1989 forecast expenses, which were developed by the company's staff and line departments and represent their best estimate of operating and maintenance requirements.

SoCalGas argues that DRA's estimates are the result of selective trending. The major flaw in DRA's analysis is that it is based entirely on trending the labor component of 6 of SoCalGas' 77 functional accounts and trending both the labor and non-labor components of one PUC account. The accounts trended were those where (1) unit costs or factors show a downward trend, and (2) SoCalGas' estimates are above the trend line. If DRA were consistent in its approach, it would increase many of SoCalGas' estimates where the estimates were below the trend line.

Further, SoCalGas believes that consistent application of the trending method should include a trend analysis of total distribution expenses. Applying DRA's trending method and using the total number of SoCalGas customers yields a total distribution expense estimate of $95.508 million for the test year. Applying the same DRA method but substituting miles of distribution main for number of customers yields a total distribution expense estimate of $94.919 million.

SoCalGas' estimate for test year 1990 is $94.633 million. This is $875,000 below the estimate derived from applying the DRA trend based on number of customers, and $286,000 below the estimate derived from applying the DRA trend based on miles of distribution main.

We find SoCalGas' argument more persuasive. We believe that DRA's selective trending does not yield an overall reasonable test year estimate. It disregards the utility's planned operations for the test year. Also, DRA's estimate is less than inflation-adjusted recorded 1988 expenses and $5.178 million less than SoCalGas' 1990 request. SoCalGas has increased expenditure levels each year in the recent recorded years. It is appropriate to continue with the higher levels of expenditure each year, given the need to better maintain SoCalGas' aging and rapidly expanding distribution system. Therefore, we will adopt SoCalGas' estimate.

b. <u>Full Year Effect of Wage Increase</u>

DRA has an adjustment of $163,000 for the full year effect of the April 1989 wage increase incorporated in its $4.4 million adjustment to distribution expense related to its trending method. SoCalGas points out that this is the only instance where DRA reflects such an adjustment and it is contrary to their agreement for reflecting the wage increase in all ostimates. We will not adopt this adjustment since we did not adopt DRA's trending adjustment.

c. <u>Attrition Increase</u>

SoCalGas calculated the anticipated activity growth in the distribution system for the attrition years and included this as an expense in the test year for an annualized amount of $103,000.

DRA recommends disallowance of the attrition-year increases embedded in SoCalGas' test year estimate. DRA argues that D.85-12-076 requires attrition year growth in expenses to be offset by increased productivity during that same time period. And D.85-12-076 does not allow utilities to circumvent Commission policy by including an allowance for attrition year growth in the test year.

SoCalGas argues that Commission policy requires a utility to offset growth through productivity gains only during an attrition year. The decision does not apply to a general rate case proceeding. If Commission policy precludes a utility from reflecting customer growth in its annual attrition filing, then the only opportunity to do so is in a general rate case.

SoCalGas notes that it used a three-year average in three functional accounts where growth is assured each year either by an increase in the number of meters, miles of main, or number of services. According to SoCalGas, this is the only method available to reflect the projected level of expense for the three year rate case period.

We remind SoCalGas that it is still the Commission's policy that increased distribution expense due to customer growth during the attrition years should be offset by increased productivity. Therefore, DRA's adjustment is adopted.

d. Deferred Maintenance

SoCalGas requests an increase of $176,000 to reduce its leak backlog from 17,800 to 9,500. SoCalGas also requests $15,000 for replacement of deep well anodes, a maintenance project which also had been postponed. DRA recommends that no allowance be give the company for these programs.

DRA notes the comments of SoCalGas in response to DRA's data requests on this issue:

> "During 1986, 1987 and 1988, SoCal's backlog of non-hazardous leak indications was maintained at a higher than desirable level due to under-funding in the appropriate accounts."
>
> * * *
>
> "The 1985, 1986 and 1987 recorded operating and maintenance expenses represent a depressed operating level as a result of inadequate Distribution expense allowances in the Test Year 1985 General Rate Case Decision (D.84-12-069): 'Costs were reduced wherever possible to adhere to the constraint.'" (Exhibit 139.)

DRA further notes that SoCalGas witness O'Rourke stated, "But if the funds are constrained unduly, then we must, as we have a right to, protect our earnings and to curtail some of the discretionary activities in the distribution area." DRA believes that SoCalGas' testimony raises serious questions about the company's motives.

DRA points out that the Commission refused to compensate Edison for deferred maintenance:

> "For us to authorize Edison's recovery of deferred maintenance expense would establish an undesirable precedent, whereby the utility is effectively guaranteed that it can earn (or exceed) its authorized rate of return, regardless of its operating efficiency or inefficiency, simply by curtailing current maintenance activities, in the assurance that they could be refinanced later through recovery of deferred maintenance expenses in a succeeding rate case. This would create a

> perverse incentive for the utility to defer needed maintenance in the future." (D.82-12-055, p. 37.)

DRA argues that instead of maintaining a responsible level of leak backlog, SoCalGas allowed the backlog to build to a level that necessitated a request for increased funds in this proceeding. Likewise, on cathodic protection, the work has been inappropriately deferred and therefore should be disallowed since the $15,000 at issue is intended for cathodic protection facilities on existing, aging main rather than proposed new main. To the extent that effects of aging are included in recorded expenses, these are included in DRA's forecasted test year expenses.

SoCalGas states that the number of service leak repairs to be made in 1990 is expected to increase by approximately 700 over 1987 levels. This is caused by a constantly growing (and aging) system and the need to manage an appropriate leak backlog by assuring repairs are made within prescribed time frames. Moreover, unit leak repair costs are being forced upward by more severe backfill, compaction, and paving requirements imposed by municipalities and agencies.

SoCalGas contends that it has performed all maintenance required by the Commission's orders during the period in question. As witness O'Rourke indicated during cross-examination, "the kinds of items that we would limit when the expense allowances are inadequate are discretionary items." Moreover, SoCalGas notes that during the period 1985 to 1988 it spent approximately $12.5 million more in distribution expenses than the expense allowances that were granted by the Commission in SoCalGas' test year 1985 decision.

SoCalGas argues that the Edison decision cited (D.82-12-055, p. 37) is not on point. In that instance, Edison requested rate relief for maintenance work it had deliberately deferred and which it wished to recover the costs of performing in future rates. According to SoCalGas, this was an entirely different factual situation than its present proposal to reduce a discretionary leak backlog. In this instance, no required maintenance has been deferred. SoCalGas asserts that the issue is simply whether or not the Commission wishes to approve the requisite costs to achieve enhanced system integrity.

We note SoCalGas' testimony that the leaks did not have to be attended to immediately, and deferral did not compromise the safety of the system. However, SoCalGas acknowledges that it did allow the backlog to increase "to a higher than desirable level." Therefore, we conclude that to the extent that the backlog did increase there was deferred maintenance. Accordingly, we will adopt DRA's recommended adjustment of $176,000 (Account 892) related to leak backlog and $15,000 (Account 887) for deep well anodes.

Also, we will adopt DRA's recommended adjustment of $24,000 (Account 887) for high cost equipment and supplies because SoCalGas did not provide a satisfactory explanation for this item.

e. PUC Account 870 - Supervision and Engineering

Account 870 is comprised of 18 distribution functional accounts, which include expenses associated with work force additions in division planning offices, needed staff positions, new division engineer positions, necessary field supervision additions, earthquake studies, increased training requirements, and greater emphasis on emergency planning and coordination. SoCalGas' estimate for the test year is $30.654 million.

DRA recommends a reduction of $422,000 for 16 planning personnel which DRA contends SoCalGas has failed to justify.

DRA has recommended inclusion in rates for 15 of 37 proposed new planners to replace contractors currently performing work and an addition of 6 new engineers. However, DRA recommends against 16 of the new planners because SoCalGas did not support the necessity for them and because DRA's trend indicated sufficient staffing by historical standards.

DRA notes that Exhibit 138 shows that SoCalGas failed to respond to DRA's requests for the information essential to determine whether funding for the positions should be included in rates. DRA made five attempts to obtain SoCalGas' support for its estimate of planner's expense and the company provided no adequate support or explanations.

SoCalGas argues that DRA's estimate is based on a trend of the labor component of only one of the 18 functional accounts, Functional Account 9512, Division Distribution Planning Staff. According to SoCalGas, a large portion of the expenditures in Functional Account 9512 is spent on planning capital projects such as new additions to the distribution system. Through the reassignment process many of these dollars are ultimately capitalized in plant balances. Since the company's test year estimate of $156.911 million in distribution plant expenditures has been accepted by DRA, SoCalGas argues that it is inconsistent for DRA to find distribution's test year plant expenditures reasonable and then to disallow a portion of the associated planning expenses.

As we noted previously, SoCalGas must make every effort to explain its workpapers to DRA. We believe that SoCalGas did not make the necessary effort. Accordingly, we will adopt DRA's adjustment of $422,000.

However, we will not adopt the related DRA-recommended adjustment of $50,000 pertaining to the April wage increase because it is contrary to the agreed upon method for handling this item consistently in all estimates.

f. PUC Account 878 - Meter and <u>House Regulator Expenses</u>

SoCalGas' test year estimate is $1.723 million. DRA recommends a reduction of $47,000.

SoCalGas states that the direct purchase of gas supplies by customers has created a measurement office workload peak that necessitates one additional non-management employee. DRA does not address SoCalGas' additional requirements since its estimate is based solely on a trend of 1983-1987 recorded labor expenses of Functional Account 9564, projected to test year 1990.

DRA states that with regard to the additional workload, its estimate includes overtime requirements in its trend. DRA disagrees with SoCalGas' use of recorded 1987 expenses as a basis for its estimates.

DRA's recommendation is at the 1987 recorded level. We are not persuaded that this account should remain at the 1987 level, since this would not allow for SoCalGas' planned modifications to its regulator service program. SoCalGas' estimate should be adopted.

g. <u>PUC Account 880 - Other Expenses</u>

SoCalGas' test year estimate for Account 880 is $13.115 million. DRA recommends a reduction of $1.613 million.

SoCalGas states that its planned increase in main and service replacement activities, expanded damage prevention and inspection activities, and greater emphasis on construction safety and quality is causing a significant increase in Distribution Division dispatch and clerical work. As an example, damage prevention notifications alone increased 35% from 1986 to 1987. This activity has grown steadily over the past several years and is expected to continue to grow about 7.5% annually. However, SoCalGas' test year estimate for Account 880 is $20,000 less than recorded 1987 expenses.

SoCalGas further states that additional safety-related training is planned for all field employees and certain office classifications. Existing training programs will be extended or enhanced to incorporate new requirements for field operations and safety. Also, Distribution Division personnel will continue to be trained on new computer applications, system enhancements, and state-of-the-art electronic devices.

SoCalGas points out that the disallowance of $1.613 million proposed by DRA for this account is based on a trend of the labor portion of only one of the functional accounts, Functional Account 9544, Miscellaneous Operating Expense. Field employees charge non-field work time to this account. This includes field time lost due to inclement weather. In turn, the time is used for non-field activities such as training and safety meetings.

DRA's response is that time not spent in the field is influenced by size of the workforce that is in turn influenced by the miles of main. To the extent weather impacted this account during 1983-87, the impacts of weather are reflected and normalized through the trend resulting in DRA's 1990 estimate.

We are not persuaded that DRA's $1.6 million adjustment derived by trending one functional account is a reasonable approach to estimating this PUC account. DRA's estimate for the functional account at issue is 35% below 1987 recorded. DRA has not adequately considered the company's plans for the test year. Accordingly, we will adopt the company's estimate.

h. <u>PUC Account 887 - Maintenance of Mains</u>

SoCalGas' test year estimate is $16.335 million. DRA recommends a reduction of $1.562 million.

SoCalGas notes that DRA's estimate is $259,000 below 1987 recorded costs.

SoCalGas' states that its $1.303 million increase relative to recorded 1987 expenses for this account reflects costs associated with operating and maintaining an aging distribution system, costs necessary to operate and maintain a distribution system that is growing by 3 million feet per year, costs related to placing an additional 2.6 million feet of existing coated steel main under cathodic protection each year, and increases associated with more stringent compaction and repaving requirements by governmental agencies. Many of these activities are new programs or procedures designed to meet safety requirements. Therefore, once again the selective DRA trending of recorded expenses ignores new programs or activities.

DRA states that its estimate included, over and above its trend total, additional funds to address the application of SoCalGas' new programs to existing mains. For example, $141,000 was included in DRA's estimate to address application of the cathodic protection program to existing main.

We note that, notwithstanding the addition of expenditures for additional items such as cathodic protection, DRA's estimate is $259,000 below 1987 recorded expenses. DRA objects to SoCalGas' use of 1987 as a base for its estimate. Aside from arguing that one single year should not be used, DRA has not stated why 1987 is an inappropriate base year for use in preparing the test year estimate. DRA's position is that the more reliable approach is to look at expense activity over the period of several years. On the other hand, if DRA, in its search for a more reliable approach, factors several non-representative years into its trends, the result is weighted by the number of non-representative years used. Further, we note that SoCalGas has between 1985 and 1988 spent $12.5 million more on distribution expense than allowed in rates. We realize that the recent years of overexpenditures are factored into DRA's trend. However, more recent years are neutralized by the non-representative earlier years, to give a result that does not represent current or future activity level. SoCalGas has chosen 1987 as a base year that apparently represents the current level of activity that is necessary. We conclude that DRA's mathematical approach does not adequately reflect the increased future needs of SoCalGas' distribution system. Accordingly, we will adopt SoCalGas' estimate, reduced by the adopted disallowance for deferred maintenance.

i. PUC Account 892 - Maintenance of Services

SoCalGas' test year estimate is $23.534 million. DRA recommends a reduction of $1.534 million.

According to SoCalGas, its requested $4.484 million increase in this account is primarily attributable to four elements: (1) the remedial program to correct unsatisfactory meter conditions as encouraged by the Commission Advisory and Compliance Division; (2) costs incurred for pipeline fittings which are used in main and service installations; (3) costs associated with increased activity in damage prevention; and (4) costs associated with leak repairs on service lines.

SoCalGas points out that the DRA test year estimate is based on trends of the labor portion of 3 of 11 functional accounts.

DRA argues that SoCalGas' estimating method has definite deficiencies since it is based on recorded 1987 values for each functional account. Estimates based on a single recorded year ignore trends described by other recent recorded years, 1984 through 1986. Also, SoCalGas' estimates of projected efficiencies are based on those known at the time their estimates were made and may not include all possible efficiencies that will be experienced in estimated and test years. The direction of unit expenses and the impact of productivity are reflected in its trending analysis of several years recorded data.

As we stated previously, we are not persuaded that DRA's mathematical trending approach has fully captured the company's overall planned level of activity for 1990. We disagree with DRA's assertion that the company's use of 1987 as a base year does not adequately reflect productivity. In fact, SoCalGas' Results of Operations shows a one line productivity adjustment by department for each year, and SoCalGas has provided justification for its new programs. Therefore, we will adopt the company's estimate.

j. The DuPont Settlement

In 1987, SoCalGas settled a dispute regarding the quality of plastic pipe manufactured by DuPont. SoCalGas' original demand of DuPont was for $2.7 million, but it accepted $1.247 million in a negotiated settlement.

SoCalGas has withheld documents which DRA alleges are crucial to its review of the reasonableness of the settlement with DuPont. Therefore, DRA argues the reasonableness of this case and others should not be decided based on incomplete files and discussions with company personnel.

Also, DRA disagrees with SoCalGas' accounting with regard to the $1.247 million that was received from DuPont. DRA argues that the ratepayers deserve to benefit from the DuPont settlement for the following reasons: (1) the ratepayers have paid for the expenses which were in dispute and which were the subject of the settlement; (2) the ratepayers are being asked to continue to pay costs in the test year and beyond; and (3) SoCalGas has withheld documents from Commission review.

DRA wants the $1.247 million that was received by SoCalGas credited to depreciation reserve. DRA contends that since SoCalGas recorded this amount in miscellaneous revenues, the shareholders have wrongly benefited. Since the ratepayers paid the costs, the ratepayers should get the benefit.

Further, DRA recommends that the difference of $1.5 million that SoCalGas did not receive be deducted from rate base because SoCalGas' should not be rewarded for not providing relevant documents.

According to SoCalGas, there is overwhelming evidence to support the reasonableness of the settlement. The reasons supporting the settlement are set forth in SoCalGas witness O'Rourke's testimony, which is summarized as follows:

> "1) At the time it was installed, the choice of DuPont plastic pipe was more economical than the alternative, which was steel.

Installation costs for steel pipe would have run at least 30% higher, resulting in a larger addition to rate base.

"The routine operating and maintenance expenses also would have been higher by about $144,000 a year for steel pipe.

"2) At the time of purchase, and even today, the DuPont pipe meets all applicable SoCal and industry specifications.

"3) Because there was no explicit warranty provision, the case would have had to be pursued under an <u>implied</u> warranty theory, which is a difficult evidentiary task and the outcome would be very uncertain.

"4) There are indications that the DuPont pipe, which was installed by outside contractors, was not installed in complete accordance with the manufacturer's instructions and SoCal procedures.

"5) Tests which both DuPont and SoCal believe are valid indicate that the pipe has a remaining life of at least as long as any alternative available at that time. Thus, it would be difficult to show how SoCal was damaged."

O'Rourke testified that Item 3 above was the advice of SoCalGas' legal department. And with regard to the accounting treatment of the money received, SoCalGas contends that it appropriately booked the DuPont settlement proceeds of $1.247 million to miscellaneous revenue.

Before we get to the reasonableness of the settlement amount, there is a threshold issue since SoCalGas has refused to show DRA certain documents on the grounds of privilege.

We note that the Supreme Court of the State of California is currently reviewing a SoCalGas case, D.87-12-071, related to waiver of the attorney-client privilege. A decision in that case may be issued shortly and could impact this matter. The $1.5

million DRA recommended adjustment, for the amount that SoCalGas did not receive, shall be considered in the next general rate case. By that time the court should have rendered its decision.

In the meantime, regarding the $1.247 million amount that was received by SoCalGas in settlement, we find that DRA has a valid point with regard to the accounting treatment. We do not agree that it is sufficient for SoCalGas to credit this amount to miscellaneous revenue. The ratepayers should receive a more direct benefit in the form of a rate base reduction (by crediting the amount to depreciation reserve). To do otherwise would mean that the ratepayers are being charged the full depreciation and return on the investment cost of good pipe with a normal life expectancy and repair cost.

In its comments on the ALJ's proposed decision, SoCalGas argued that if the $1.247 million was to be deducted from rate base, the deduction amount should be net of income taxes. On this basis, the net reduction to rate base should be $679,000.

We agree with SoCalGas.

In summary, the reasonableness of the DuPont settlement amount will be an issue in SoCalGas' next general rate case.

6. Engineering Expenses

a. Introduction

SoCalGas and DRA are in agreement as to expenses associated with engineering services, including environmental programs, except for polychlorinated biphenyls (PCB) expenses. The only disagreement between SoCalGas and DRA relates to PCB expenses included in Account 880 which is discussed later.

b. Agreement between SoCalGas and DRA

SoCalGas and DRA reached agreement on expenses relating to all environmental matters except for expenses associated with PCB's. As part of the company's mutual recommendation with DRA, SoCalGas witness Strang agreed to remove $600,000 from Account 880 associated with the clean-up of company-owned sites located at

Playa Del Rey, North Needles, and South Needles. Although SoCalGas will remove $600,000 from its Account 880 estimate, SoCalGas and DRA are in agreement that SoCalGas should have the opportunity to recover such clean-up costs pursuant to the method set forth in D.88-07-059. This decision is applicable to the clean-up of Towne Gas and Superfund sites and provides that clean-up or "remediation" costs shall be subject to approval by advice letter.

We agree with this procedure. SoCalGas may recover clean-up costs associated with company-owned sites in accordance with the procedure set forth in D.88-07-059.

SoCalGas and DRA also recommend that $252,000 be retained in Account 880 for investigation costs for company-owned sites at Playa Del Rey, North Needles, and South Needles, and expenses associated with miscellaneous operational clean-ups including hydrocarbon and mercury.

We agree that this is reasonable and will include this amount in base rates.

In addition to the foregoing, SoCalGas and DRA recommend a funding level of $1.934 million for expenses associated with investigation of Towne Gas and Superfund sites. As part of this mutual recommendation, SoCalGas will place highest priority on the 29 sites currently listed and referred to as category 1 and category 2 sites in D.88-07-059. Category 1 sites are sites owned by the company and currently operated by the company. Category 2 sites are sites previously owned by the company, but owned or partially owned by other parties at the present time and where SoCalGas has some liability with respect to environmental clean-up costs. SoCalGas would also be allowed to substitute category 3 sites for category 1 and category 2 sites provided, however, that the company is directed by a governmental agency to pursue investigation, or a third-party demand is placed on the company. The provisions cited above are consistent with D.88-07-059.

We agree that this is reasonable. The $1.934 amount will be placed in base rates.

As part of the mutual recommendation related to Superfund and Towne Gas investigative costs, SoCalGas and DRA recommend that Account 880 site investigative costs be subject to a one-way balancing account for the three-year period 1990 to 1992. If SoCalGas does not in fact incur site investigation costs in the amount of the cumulative revenue requirement for such three-year period, underspending would be either refunded or carried forward to offset future expenses. The balancing account is "one-way" in the sense that SoCalGas shall not be able to recover any overspending above the $1.934 million annual amount over the three-year period. The mutual recommendation for annual funding of $1.934 million associated with site investigation costs is based on an average cost of $300,000 per site investigation over the life of each investigation, which is considered reasonable by both SoCalGas and DRA.

We will adopt this recommendation.

Also, we direct SoCalGas to provide a status report as an exhibit in the next rate case describing the site investigation work that was done, the status of those investigations, and a specific accounting of costs relative to those investigations. In its annual report, SoCalGas shall include updates related to the investigation of Towne Gas and Superfund sites.

c. Account 880 - PCB Costs

SoCalGas requested $5.612 million to recover the undercollection in the PCB balancing account and for annual PCB operating expenses. DRA recommended that none of these costs should be recovered in 1990 test year rates, but that they should be held in a deferred account pending the outcome of the SoCalGas-Transwestern PCB arbitration.

SoCalGas' test year estimate for Account 880 PCB costs is $5.612 million, $4.112 million representing the estimated balancing account undercollection as of January 1, 1990 and $1.5 million for annual PCB operating expenses. SoCalGas' PCB balancing account was first authorized in its test year 1983 rate case, D.82-12-054. The PCB balancing account was reauthorized in its test year 1985 rate case, D.84-12-069.

SoCalGas states that, significantly, there was no disagreement between SoCalGas and the Commission staff regarding the initiation of a PCB balancing account in 1983 or its continuation in 1985. Indeed, in D.82-12-054 the Commission states as follows:

> "PCB estimated expenses included in account 880 for test year 1983 are $3,000,000. There is no disagreement between the parties regarding the need to deal with the PCB problem and SoCal's proposed solution. Since the problem is relatively new ..." (D.82-12-054, 10 Cal. PUC 2d 82 at 131 (1982).)

SoCalGas notes that the issue of liability for its PCB clean-up expenses is presently the subject of an arbitration proceeding between SoCalGas and Transwestern. SoCalGas filed its demand for arbitration on September 2, 1987 after having entered into a standstill agreement whereby SoCalGas preserved its rights to recover all expenses related to the clean-up of PCBs entering its system from Transwestern. SoCalGas also recommends and fully agrees that any recovery it receives from Transwestern related to the clean-up of PCB costs should be credited to the PCB balancing account.

SoCalGas objects to the deferral of cost recovery of PCB expenses in rates. It agrees that expenses associated with the PCB balancing account and SoCalGas' actions in the SoCalGas-Transwestern arbitration proceeding will be subject to DRA staff audit. Thus, if DRA believes SoCalGas has acted imprudently in any manner it may recommend a disallowance. SoCalGas argues that DRA's recommendation would retroactively alter prior Commission decisions that authorized current recovery of PCB clean-up costs and amortization of the balancing account.

DRA disagrees with SoCalGas' proposal. DRA recommends that all PCB costs should be excluded from test year rates. Further, DRA recommends that all PCB costs be excluded from Account 880 and that SoCalGas should track future PCB-related costs in a non-interest bearing memorandum account. DRA also recommends that Account 101 (Plant In Service) be reduced by $1.4 million, with these dollars being reclassified to a hazardous waste memorandum account.

DRA asserts that a review of PCB costs that is complete and that adequately protects ratepayers will only be possible after the conclusion of arbitration between SoCalGas and Transwestern. For this reason, DRA recommends that SoCalGas' PCB costs should be subject to review in the first annual Hazardous Waste Reasonableness Review following the completion of arbitration.

DRA states that, prior to 1986 when SoCalGas had not quantified its cleanup costs and had not yet sent an invoice to Transwestern, the Commission authorized a balancing account for PCB-related clean-up costs. To protect ratepayers and all others from the hazards presented by PCBs it was important to ensure that work began promptly on cleaning up SoCalGas' contaminated pipeline. A balancing account was deemed necessary by the Commission, in SoCalGas' 1983 general rate case and again in their 1985 case, because the clean-up problem was relatively new and it was not possible at the time to reasonably estimate test year costs. (D.82-12-054, p. 74; D.84-12-069, p. 40.)

DRA argues that PCB costs are a classic example of hazardous waste costs appropriate for the Commission's hazardous waste memorandum account. DRA notes that SoCalGas states that "[t]here is high potential for significant annual variation in PCB-related costs" and that PCB cleanup costs are very likely to continue.

DRA points out that the memorandum account procedure serves to protect the ratepayer against paying costs for which a third party is liable. SoCalGas has billed Transwestern for its PCB costs, and it is an open question as to when and if Transwestern will pay these costs. There also are other parties that may be liable for PCB mitigation costs. SoCalGas witness Strang testified that Texas Eastern may have been the owner of the Transwestern line when oil containing PCBs was used in its compressors.

We agree with DRA. We believe that SoCalGas needs an incentive to actively proceed with arbitration. Therefore, SoCalGas should transfer all prior costs, including capital costs, to a non-interest bearing memorandum account with no current recovery in rates. SoCalGas may seek recovery of all PCB clean-up costs after arbitration is concluded, following a reasonableness review in an annual hazardous waste review proceeding.

In summary, we deny SoCalGas' request to amortize the December 31, 1989 $4.112 million undercollection and for $1.5 million for anticipated PCB expenses in 1990.

7. Customer Accounts Expenses - Uncollectible Expense

DRA revised its position on industrial uncollectibles and major industrial bankruptcies (Exhibit 106). SoCalGas agreed with DRA's revised recommendation for uncollectible estimates at a .40% factor for residential/commercial uncollectibles and a $700,000 expense for industrial write-off. The difference in this account reflected in the comparison exhibit is due to the revenue base to which the above rate is applied.

8. Demand Side Management (DSM), Including Marketing, Expenses

Briefs on this subject were filed by SoCalGas, DRA, Edison and the California Energy Commission (CEC).

Following negotiations between SoCalGas and DRA, the final funding level recommendations and the adopted amounts are:

	SoCalGas	DRA	Adopted
Conservation	$41,121	$35,216	$41,121
Fuel Substitution	3,039	216	1,519
Load Retention	0	1,500	1,500
Measurement and Evaluation	4,535	4,535	4,535
Other DSM	2,165	2,165	2,165
Non-DSM	9,155	4,000	4,000
	$60,015	$47,632	$54,840

(Thousands of Dollars)

(Revised late-filed Exhibit 101, dated August 24, 1989.)

Exhibit 101 sets forth the total levels of expenditure for conservation and demand-side management programs in prior years. The recorded conservation expenditures for 1987, 1988, and 1989 are $42.6 million, $38.6 million, and $36.9 million, respectively. The adopted level of expenditures for 1990 is nearly a 40% increase over recorded average expenditures in the prior three years and reflects the Commission's continuing commitment to these programs.

The total difference between SoCalGas and DRA for test year 1990 is $12.4 million. The areas of differences are discussed below.

a. <u>Conservation</u>

The revised funding recommendations are:

	SoCalGas	DRA	Adopted
Residential New Construction	$3,774	$1,824	$3,774
Non-Residential New Construction	1,568	714	1,568
Commercial Energy Mgmt. Incentives	2,761	1,000	2,761
Industrial Energy Mgmt. Incentives	1,840	500	1,840
Conservation Total	$9,943	$4,038	$9,943

(Thousands of Dollars)

(1) Residential and Non-residential New Construction

SoCalGas contends that the primary purpose of the programs will be conservation with specifically limited fuel substitution resulting from the activities. In response to the concerns of CEC and DRA, SoCalGas suggests that the programs be constructed to limit the fuel substitution portion to one-third of the funding, and establish unit goals for each of the two programs. The Residential New Construction program should include incentives to decision makers with the requirement that gas heating equipment with higher than standard efficiencies be installed and/or building envelope improvements above current standards be implemented (duct wrap/wall insulation). For the Commercial New Construction program, a project must include higher efficiency equipment for at least two appliances in order to qualify for an incentive. Therefore, the only projects that would qualify for incentives would be those that meet the higher efficiency conservation related requirements. SoCalGas further suggests that the Commission's decision require SoCalGas, DRA, and CEC staffs to agree on broad program elements, goals, and reporting requirements prior to program implementation.

According to DRA, its redesigned New Construction programs are intended to reduce natural gas use and support future CEC standards. As long as the primary effect of this program is energy efficiency in support of the CEC standards development, DRA is willing to support such a program. On the other hand, DRA argues that at the level proposed by SoCalGas, these New Construction programs could become a substitution for future standards rather than supplementing them. Also, because of the likely (secondary) effect of inducing gas fuel choice, DRA believes that these programs should be funded at relatively low levels.

The CEC recommends that SoCalGas be allowed start-up funding for new DSM programs. The amount of funding should be tied to specific amounts of energy savings targets. CEC believes that a minimum of $2.0 million should be allowed for funding new efficiency programs.

The CEC believes that it is important for SoCalGas to operate these programs in a manner which will support the CEC's policy of pursuing "lost opportunities." According to CEC, lost opportunities refers to those situations in which failure to implement a conservation measure at the time of construction or installation effectively limits future conservation savings.

We note that DRA's main concern is that a program at the funding level requested by SoCalGas could become a substitute for future CEC standards. On the other hand, CEC recommends a minimum of $2 million to cover start-up costs for such a program. CEC has not expressed the same concerns as DRA regarding funding level leading to substitution for future CEC standards.

Furthermore, we conclude that SoCalGas' offer to limit the fuel substitution portion of the program to one-third of the funding, and establish unit goals as discussed above is reasonable. We will require SoCalGas, DRA, and CEC staff to agree on broad program elements, goals, and reporting requirements prior to program implementation. With this requirement, we will adopt SoCalGas' estimates of $3.8 million and $1.6 million respectively for new construction programs.

(2) Commercial and Industrial <u>Energy Management Incentives</u>

DRA states that its funding levels are generally consistent with the levels recommended for the Pacific Gas and Electric Company (PG&E) general rate case for these programs. DRA's proposal for energy efficiency incentives to commercial sector customers is also close to recent and historical levels; for industrial customers, DRA's proposal would amount to a reduction in funding relative to recent and historical levels.

DRA notes that according to the cost-effectiveness analysis provided by SoCalGas these programs do "pass" the test with benefit-cost ratios (BCRs) of about 1.5. However, DRA argues that in spite of favorable indications of cost-effectiveness, its recommended funding of these programs at relatively low levels is based on several considerations.

DRA's concerns are: first, the status for "least cost planning" for natural gas lags considerably behind procedures and methods for least cost planning for electric DSM programs. Until further progress is made in these areas, DRA believes it would be imprudent to endorse the major increases in funding proposed by SoCalGas for Commercial and Industrial Energy Management Incentives.

Second, the recent establishment of core and noncore market segments further complicates the funding review of DSM programs for large customers, and raises questions about the prudency of expanding these programs. With the limited ability to integrate gas DSM evaluation and decisions into gas resource planning, these concerns about core/noncore relationships suggest that the major expansion of funding proposed by SoCalGas would not be prudent.

Third, with BCRs of about 1.5, the implication is that it would be cheaper to reduce gas demand through these programs than to purchase natural gas at the margin. Failure to capture all of the potential reductions in the near term (e.g. by greatly expanding the program) would not be a major loss.

SoCalGas strongly disagrees with DRA's contentions. First, as stated in Exhibit 157, the equipment replacement programs are specifically designed as conservation programs, not fuel substitution programs. The incentives SoCalGas requests will be used to replace older, less efficient gas equipment with new, high efficiency gas equipment. Second, DRA provides no evidence to justify its funding recommendations as being adequate to meet the programs' objectives. Third, there is no basis for DRA's recommendation that SoCalGas' funding level should be comparable to the funding authorized for PG&E for similar programs. SoCalGas contends that its general rate case funding level should be based solely upon SoCalGas' customer needs, not PG&E's.

SoCalGas further notes that when asked if the company will monitor these programs to insure that the incentives are used to replace gas equipment with gas equipment, SoCalGas witness Mitchell responded:

> "Yes. The program guidelines that would be issued to the company workforce would specify specifically that the program dollars are only available for gas change-out, and that would be monitored through in-line supervision and functional review of the program periodically."

Finally, SoCalGas points out that the level of funding in these programs has not increased as substantially as DRA claims. Rather, the programs have been recategorized in order to comply with the DSM program definitions. The workforce for these two incentive programs was previously in the energy management services category, specifically under the energy efficiency audit budget for 1985 through 1989. As indicated on page III-35 of Exhibit 58, the commercial and industrial energy efficiency audit recorded expenditures for 1987 were $4.728 million and $1.794 million, respectively. The 1990 request for those programs has been reduced to $2.996 million. The balance of the audit budget consists of labor and related program expenses, and has been moved to the commercial and industrial energy management incentive programs. Thus, SoCalGas is not requesting a significant increase for new non-residential conservation programs. The requested increase is approximately $93,000, which is needed to encourage customers to implement recommendations made through the audit program.

In summary, SoCalGas believes that the requested level of funding for these two conservation programs is consistent with the historical level of funding and is reasonable and warranted. These programs will provide essential services to SoCalGas' commercial and industrial customers and help them conserve gas energy.

We note SoCalGas' argument that its request does not represent a significant increase for new non-residential programs, and its programs are needed to encourage customers to implement recommendations made through the audit program. Furthermore, the programs are cost effective.

We are not persuaded by DRA's argument that because the allocation of core/noncore costs in the ACAP proceeding does not sufficiently segregate these costs, we should cutback on these programs. That concern should be addressed in ACAP.

We agree with CEC's concerns regarding lost opportunity. The lack of a cost-allocation procedure should not be reason to delete funding for noncore programs. Further, we note SoCalGas' agreement that these programs will not be used to replace electric equipment. They will be used to replace less efficient gas equipment with more efficient gas equipment. The funding level requested by SoCalGas is not out-of-line with prior historical levels. Therefore, we will adopt SoCalGas' estimates of $2.8 million and $1.8 million respectively.

b. Fuel Substitution Programs

The revised funding level recommendations of SoCalGas and DRA are as follows:

	SoCalGas	DRA	Adopted
Target Market Agriculture	$ 117	$ 0	
Target Market Air Conditioning	1,080	216	
Promoting Clean Air (Non-Residential)	634	0	
Equipment Replacement (Noncore)	1,026	0	
Customer Technology (Noncore)	182	0	
Fuel Substitution Total	$3,039	$216	$1,519

(Thousands of Dollars)

According to SoCalGas, "Fuel Substitution Programs promote gas among energy decision makers where gas is the best fuel available for an application being considered." In this regard, SoCalGas has certain reservations regarding the tests that are used to evaluate fuel substitution programs.

SoCalGas notes that the following programs pass the Participant, Total Resource Cost (TRC) and Ratepayor Impact Measure I (RIM I) Tests (cost effectiveness analysis) required by DRA: Promoting Clean Air, Commercial Air Conditioning, Technology Awareness, and Equipment Replacement for Large Customer Programs.

However, SoCalGas has concerns with regard to the RIM II test. The RIM tests examine the extent to which the utility programs impact non-participating ratepayers. RIM I includes only gas ratepayers, while RIM II examines combined gas and electric ratepayers. It is SoCalGas' position that the RIM II test, when applied to fuel substitution programs, is severely flawed.

SoCalGas believes that it is in society's interest to see that the preferred fuel be chosen for the application at hand. Gas is clearly the preferred fuel for many applications. In terms of identifying the preferred fuel from the perspective of long-run energy resource benefits, neither the TRC nor the RIM test is reliable. SoCalGas prefers to rely upon factors that are clearly known, such as the cost of the fuel application that reduces the cost to the user. A second factor is the cost of additional capacity for loads that will be there for 15 or 20 years in the future. Therefore, SoCalGas recommends that the Commission consider these factors when evaluating cost-effectiveness.

Addressing its programs, SoCalGas believes that its Agricultural Program responds to a need to regain market share lost from past non-competitive gas rates for agricultural water pumping. With this program and the new seasonal GN-10 gas rate, SoCalGas has an opportunity to recapture load on its existing distribution system to increase annual revenues during its low demand summer months. According to SoCalGas, this will spread its fixed costs over a larger customer base and thereby benefit all customers.

Next, SoCalGas argues that DRA has recommended disallowances in the Commercial Air Conditioning Program, based on the conclusion that SoCalGas should not be competing with the Los Angeles Department of Water and Power (LADWP) in its service territory. SoCalGas notes that for the Commercial Air Conditioning Program DRA has recommended an 80% disallowance of the requested funding for the following reasons:

> "DRA recommends that this program be limited to those customers who do not receive electric service from a municipality. This recommendation would preclude SoCalGas from offering this program in the Los Angeles Department of Water and Power Electric Service area. DRA recommends that the Program should be scaled back by 80% to reflect that it will not be offered in the LADWP Service Area. The 80% is an estimate based on the fact that SoCalGas has about 200,000 "core" commercial customers system-wide and 158,000 which are in the LADWP service area overlap."

SoCalGas contends that DRA's 80% figure is incorrect. SoCalGas states that it has advised DRA several times that only 22% of SoCalGas' core commercial customers overlap in the LADWP service area.

Nevertheless, SoCalGas disagrees with DRA's fundamental argument that the company should not be allowed to compete with LADWP in its service area. SoCalGas argues that the need to compete actively in a fully emerging utility market is well-founded. As SoCalGas witness Harrington states:

> "[T]he Department of Water and Power's program which provides incentives to the space heating market to install...electric space heating...those incentives I believe are as high as $250.00 per unit...there is also...a promotional effort in the commercial area for larger space heating requirements that has an offset to electric rates."

According to SoCalGas, these programs offered by the LADWP make competition with the municipals essential. In addition, SoCalGas argues that DRA's position is directly contrary to the Commission's own major efforts over the past few years to restructure California's gas utilities to promote and enhance competition.

Next, SoCalGas states that the purpose of the Promoting Clean Air Program is to retain industrial customers whose load may otherwise be lost due to the cost of increasing air quality restrictions on gas-fired equipment. SoCalGas intends to share the costs of retro-fitting gas-fired equipment with emission control systems (where appropriate) in order to improve the cost-effectiveness of such customer actions.

SoCalGas maintains that this program will help customers to comply with the SCAQMD rules, and therefore does not have a "negative environmental impact." Furthermore, each customer will certainly seek to comply with the air quality rules using the least costly alternative available to it. Since the emission controls must be installed by law, SoCalGas contends that this program will assist some customers in complying earlier than they might otherwise have, thereby accelerating the positive impact of SCAQMD's mandated rules.

SoCalGas notes that the Equipment Replacement for Large Customers Program will maintain or increase sales to large alternative fuel capable commercial and industrial customers and will encourage the installation of gas-fired equipment whenever it is competitive and efficient. SoCalGas has requested $1.026 million for this program. According to SoCalGas it is cost effective under the total resource cost test analysis.

Next, SoCalGas seeks $182,000 for the Technology Awareness Program to counteract recent losses of retail gas sales in the noncore market. The majority of this request, $132,000, is for informational activities, while only $50,00 is for co-funding consultant studies. According to SoCalGas, this program is cost effective, and it directly responds to the pressure to increase sales in this market due to the restructuring of the natural gas industry.

DRA notes that much of the controversy generated in this proceeding regarding the gas fuel substitution programs has been minimized by the recent agreement by SoCalGas to redesign its proposed fuel substitution programs for new residential and non-residential buildings so that they will be implemented as New Construction Energy Efficiency Programs.

DRA believes that the Commission should use its proposed Funding, Evaluation, and Implementation Principles (FEIP), which are discussed later, to evaluate SoCalGas' proposals. Under the proposed FEIP, programs should only be funded under specified criteria which includes (1) no funding of gas fuel substitution programs for noncore customers; (2) limited funding for core customers; and (3) no funding in areas served by municipal electric utilities. Also the determination should be made that natural gas is the preferred fuel and the effects of the promoted fuel on the environment needs to be considered.

Using these criteria DRA concludes that except for limited funding for the Target Market Air Conditioning Program, there should be no funding for the remaining fuel substitution programs.

For the Agricultural Gas Pump Program, DRA recommends no authorization at this time. DRA believes that the alternative assumptions associated with the economic analysis of this program do not provide sufficient demonstration that gas is the preferred field for this application. With BCRs slightly below or slightly above 1.0, DRA believes that it is not possible to establish either electric or gas equipment as the clear choice from an economic resource efficiency standpoint. Under such conditions, DRA does not believe the provision of incentives to influence the choice of either fuel is warranted.

DRA addressed the Air Conditioning Fuel Substitution Program in detail. DRA notes that:

> "(1) under various assumptions gas is likely to be the preferred fuel from an economic efficiency standpoint; this is not only demonstrated in the various economic analyses produced in this proceeding (e.g., SoCalGas Late-filed Ex. 195), but is consistent with the experience of SDG&E which has implemented this kind of program for several years;
>
> "(2) from an environmental standpoint, it is not clear whether gas or electric usage is the preferred fuel--the critical unknown is whether and when the electric utilities in the South Coast Air Basin will be modifying their electric power plants to conform with the recently adopted (August 4) requirement to install pollution-abatement equipment, and whether the installation of a gas-fired air conditioning unit may also require the building owner to add NOx emission control equipment.
>
> "(3) the recently-adopted SCAQMD rules may provide sufficient basis for pressure on LADWP to cease the promotion of electric heat pumps in commercial building applications, thereby reducing the need for gas incentives."

DRA states that although the evidence associated with all of these issues does not lead to a compelling case for or against the SoCalGas Gas Air Conditioning Program, DRA believes it is appropriate to authorize funding for the program at the limited level of $216,000. This will permit SoCalGas to initiate a very small scale program, obtain at least some information regarding customer response, and therefore provide the basis for further review in the next rate case.

Edison argues that SoCalGas' fuel substitution programs are not cost-effective and should not be funded by ratepayers. According to Edison, the forecast on which SoCalGas relies is based on out-of-date information, since it uses a forecast adopted in Edison's last general rate case, which has since been updated.

Edison argues that its cost-effectiveness analysis is based on a more recent forecast which shows that additional electric capacity provides no value to ratepayers until 1993, when the value of additional capacity rises thereafter until 1998 when additional generating plant capacity would need to be added.

Edison notes that it presented both a life cycle and a "first-year" cost-effectiveness analysis for each of the gas fuel substitution programs. Each of the four programs which "pass" the life cycle cost-effectiveness analysis prepared by Edison "fail" the first-year cost-effectiveness test. The conclusion of this analysis is that these programs are not cost-effective at the beginning of their life cycle, and that benefits of deferring the programs exceed the cost of this deferral.

Thus, Edison believes that none of SoCalGas' gas fuel substitution programs are cost-effective at this time, and recommends that all of these programs (with the possible exception of SoCalGas' fuel cell program) be deferred until at least SoCalGas' next general rate case.

With regard to SoCalGas' Clean Air Programs, Edison believes that SoCalGas' claims are unsubstantiated. Edison notes that SoCalGas maintains that, since its Promoting Clean Air Programs will help customers comply with SCAQMD rules by sharing costs of pollution controls, the program cannot have a negative environmental impact. Edison contends that this is true only if the subsidized controls produce the same or lower emissions than would other, alternative, control technologies that the customers might use in the absence of subsidies.

Edison argues that, for example, the owner of a natural gas fueled, internal combustion engine pump might choose to control emissions by either installing retrofit controls on this engine, or by replacing the engine with an electric motor drive. Controlled internal combustion engines produce more emissions than do electric motors, even considering the emissions from electric generation. If a subsidy by SoCalGas induces these customers to install retrofit control on engines, rather than replace engines with electric motors, there will be a negative environmental impact from the subsidy. In the same way, if the proposed agricultural fuel substitution program successfully induces replacement of electric motor pumps with internal combustion pumps, there will be a negative environmental impact due to a worsening air quality problem in the SCAQMD. Therefore, Edison requests the Commission to disregard SoCalGas' claims of environmental benefits.

The CEC supports restricted funding for fuel substitution programs designed solely to increase sales. On the other hand, the CEC believes that utilities should be allowed to propose programs which simultaneously achieve both efficiency and environmental goals. However, the CEC urges the Commission to carefully scrutinize each such program to determine that the claimed benefits will actually occur before allowing funding.

The CEC supports DRA's proposed restriction on load building programs and recommends that the Commission carefully scrutinize any load building proposal. CEC notes that this position is supported by the Commission's recent interim opinion in the I.86-10-001 proceeding. In that decision, the Commission emphasized the advantages of avoiding or postponing capacity additions. Accordingly, the CEC strongly supports DRA's recommendation that the Commission not fund load building programs unless a utility assesses the environmental impacts of both the load building program and conservation measures.

We will address the main issue which is whether fuel substitution programs should be limited to: (1) only the core market and (2) only customers not served by an electric municipality.

We note DRA's concern is that it wishes to protect the ratepayers from a utility which would engage in an inter-utility incentives war with a municipal electric utility. DRA's argument is that SoCalGas attempts to obscure the fact that its stockholders will not bear the risk that a costly and wasteful incentives war may occur which would escalate beyond what would occur in a truly competitive market.

On the other hand, we note that CEC supports restricted funding for fuel substitution programs that increase energy efficiency and reduce nitrous oxide (NOx) emissions. With regard to LADWP using incentives to promote heat-pump installations in multi-family dwelling new construction, CEC concludes that for the next three years covered by this rate case, direct-fired furnaces would be the preferred space heating choice. The CEC recommends that the Commission encourage SoCalGas to conduct a program comparable to the one LADWP is conducting which offers higher incentives for higher levels of efficiency.

We note Edison's position that SoCalGas' fuel substitution programs are not cost effective at this time and should not be funded. Also, Edison does not support DRA's proposal to deny participation in programs for the reason that the customer is in the service area of a competing municipality.

With regard to DRA's proposal to deny programs to customers simply because such customers are served by a municipal electric utility, we conclude that such a policy is discriminatory and is not a valid reason. SoCalGas customers in the LADWP service area pay the same gas rates as customers outside that service area. Therefore, these customers are equally entitled to the same benefits that will help them reduce their gas bills. There is no valid reason to dey them these benefits.

With regard to programs for noncore customers, we believe that the contribution to conservation savings, especially long-term savings that would be permanently lost, should not be ignored (lost opportunities). If such programs are clearly cost effective, then they should be funded. However, if DRA's concern is cost allocation, that should be addressed in the ACAP proceeding.

On the other hand, we agree with DRA to the extent that an incentives program should not be allowed to escalate into all-out war with the municipal electric utility, but at the same time the Commission should not place the regulated utility in an inferior position where it has to stand helpless and let the municipal electric utility capture its customers by means of incentives. Of course, the obvious solution is for SoCalGas and LADWP to limit incentives to the point where customers do not base their choice only on initial cost, but make their choice based on long-term benefits. We hope such a compromise can be negotiated with LADWP.

Also, we note the dispute between SoCalGas and Edison with regard to the cost effectiveness of the programs. We are not persuaded that the cost effectiveness of SoCalGas' proposals are beyond dispute one way or the other. On the other hand, we do not agree with Edison that the lack of first year savings should result in a program being eliminated. Further, as DRA itself noted, there are numerous uncertainties which make it very difficult to adequately address the SoCalGas proposals. Therefore, we are not prepared to base our funding recommendation solely on cost effectiveness figures, however they will not be disregarded. As CEC recommended, we agree that funding should be limited to programs that increase energy efficiency and reduce NOx emissions.

Accordingly, we will for purposes of this rate case cycle base our funding recommendations on other considerations, such as the need for SoCalGas to be given the opportunity to retain existing load consistent with the need for cost-effective programs. We will reduce SoCalGas' request by 50%. Each program shall receive one-half of the amount requested by SoCalGas. This level of expenditure should enable SoCalGas to maintain its market share.

We expect SoCalGas to review its programs with DRA and CEC to ensure that the programs implemented are not aimed at capturing the existing load of Edison or LADWP, but are designed only to retain and prevent further erosion of SoCalGas' market share. The adopted funding level for all fuel substitution programs is $1,519,000.

c. Load Retention and Non-Demand Side Management

The revised funding level recommendations of SoCalGas and DRA are as follows:

	SoCalGas	DRA	Adopted
Service & Information to Customers	$6,636	$4,000	
Service & Information to Large Customers	2,519	0	
	9,155	4,000	
Load Retention	0	1,500	
	$9,155	$5,500	$5,500

(Thousands of Dollars)

SoCalGas argues that the Service and Information to Customers Programs are not a "catch-all" category of activities. These activities address customers' specific needs, particularly with respect to informing them about the many significant and complicated changes that have occurred in the utility marketplace since 1985. These informational needs alone require additional company workforce. Furthermore, SoCalGas points out that the Commission has ordered the implementation of complete new programs which must be fully explained to its customers, along with the related issues of negotiated rates and tariffs, transportation, specialized gas procurement portfolios, and other unbundled services. SoCalGas believes it must have a workforce adequate to respond to all customer inquiries concerning both core and noncore issues. Even if a particular large core customer does not qualify for noncore status, SoCalGas asserts that the reasons for not qualifying must be explained, and this takes time.

Lastly, SoCalGas disagrees with DRA's proposal for a funding level based upon a request by PG&E for a "similar program." SoCalGas takes exception to relating its requests with requests by PG&E in PG&E's own separate rate case.

DRA takes issue with the company's claim that additional funding is required due to the increasing complexity of customer choice in the "unbundled" natural gas market. DRA strongly opposes the magnitude of the increase. DRA notes that since 1985, the company has expended between $4,000,000 and $5,000,000 total for this combined activity (core and noncore). However, the company now proposes to fund the combined activity at $9,155,000. DRA recommends the combined activity to be funded at $5,500,000 to be split between core ($4,000,000) and noncore ($1,500,000 load retention).

We disagree with DRA's position that there should be not funding for service and information to large customers. However, SoCalGas' total request should be reduced to the same level as for prior years. We note that the five-year recorded average for these combined activities is $4,761,600. Allowing for the customer growth expected and the new programs outlined by SoCalGas, we conclude that DRA's recommended total amount of $5,500,000 is reasonable and should be adopted as the total for all load retention and non-demand side management programs, including large customers.

d. Funding, Evaluation, and <u>Implementation Principles (FEIP)</u>

DRA requests that the Commission formally adopt its proposed Funding, Evaluation, and Implementation Principles (FEIP) as presented in Exhibit 58.

DRA states that three considerations shaped the development of the proposed FEIP: (1) the increased complexity of

DSM programs; (2) the need for and benefits of increased consistency in the treatment of DSM between utilities and between proceedings; and (3) the need for clarity of purpose in the future direction of DSM, thereby more firmly establishing continuity by the Commission in its commitment to DSM policy.

DRA notes that the Commission has firmly asserted its commitment to supporting the equal treatment of demand-side options to supply-side resources. (D.86-12-095, pp. 34o, 94.) However, the practical implementation of this objective has led to uneven results. The development of the FEIP is in direct response to the real world difficulties in integrating demand- and supply-side resources in a least-cost planning context. Some of these difficulties arise from the lack of a clear forum for gas resource planning. Others have arisen from the varying levels of commitment on the part of the utilities in the recent past, and SoCalGas is no exception. DRA believes that the FEIP is a reasonable and much-needed foundation for the future pursuit of this objective.

DRA argues that there are several tenets of the FEIP which are absolutely critical for the Commission to adopt. These highest priority tenets are as follows:

1. Designation of gas energy efficiency incentive programs as the appropriate subset of DSM which are intended to serve as alternatives to gas supply-side resource options. (Tenet III.A.)

2. Explicit endorsement of the Total Resource Cost test as representative of the costs and benefits which should be used to compare energy efficiency incentive programs to supply-side options. (Tenets III.E-G.)

3. The delineation of guidelines for discretionary movement of funds between programs, and for expectations regarding expenditure levels relative to authorized levels. (Tenets I.C-D; II.C and G; V.C and E; VIII.E.)

According to DRA, the items identified above in Items 1 and 2 represent the minimum level of policy direction that the Commission needs to establish if it wishes to move ahead with its long-standing commitment to treat demand-side options on an equal footing with supply-side options. The tenets identified in Item 3 above are essential in order to establish reasonable degrees of certainty that authorized programs are implemented at the level of funding authorized, and to prevent excessive and inappropriate levels of shifting of funds or intentional underspending after authorization is obtained.

DRA submits that the general rate case is the most appropriate available forum for adoption and consideration of the FEIP. Particular tenets can be litigated in the subsequent proceedings in which they would be applied. In this way, the impact of adopting the FEIP is indistinguishable from any other policy adopted in the context of a general rate case decision.

The CEC does not endorse the FEIP but elects to comment on certain FEIP. It recommends adoption of only a few FEIP without modification and adoption of others with modification. Actually, the CEC recommends adoption of only one of the three FEIP which DRA has designated as highest priority.

Edison asserts that the FEIP advocated by DRA would impose a static set of guidelines potentially affecting future proceedings for all energy utilities.

According to Edison, the implications of the proposed FEIP are far too important to be approached without considerable input from all interested parties. Edison notes that SoCalGas witness Mitchell made this point clear in response to a question from DRA:

> "Well, my position is that before the principles are adopted, they should see a greater light of day.
>
> "I would think that it would be appropriate to involve the utilities, and perhaps the Energy

> Commission and other interested parties, and receive additional input and participation in terms of shaping these.
>
> "I believe that in terms of this rate case, they were provided to us after our filing -- in this report, and we have not had sufficient opportunity to participate with others in analysis and input." (T.R. 16/1569.)

Edison believes that the FEIP have not received sufficient scrutiny from DRA and other parties. An example is the fuel substitution FEIP that discusses the establishment of a "preferred fuel" designation for specific applications. A preferred fuel per se cannot be identified. Only combinations of fuels and technologies for a specific end-use can be compared and ranked for efficiency. Technology development and evolving customer demand require that this process be dynamic and not be codified in any static set of rules or principles.

Further, Edison believes that the FEIP that prohibits offering gas fuel substitution programs in the service territories of electric municipal utilities without the municipality's written permission has also not received adequate analysis.

In summary, it is Edison's position that with their static requirements, the FEIP would diminish the ability of the Commission to examine the merits of DSM programs on the basis of the latest information and evolving objectives. Edison believes that while it is useful for DRA to adopt principles that enable it to provide consistent analysis of DSM programs for all utilities, there is no need for the Commission to be as rigidly bound in such policy deliberations as the FEIP would provide.

SoCalGas believes that its general rate case is not the appropriate proceeding for the Commission to formally adopt a set of FEIP that will apply to all utilities. The Commission should do this in a separate proceeding that includes all energy utilities and interested parties.

Recently, in D.89-12-057, PG&E's test year 1990 general rate case decision, the Commission addressed DRA's FEIP proposal. We find in the instant case many of the same issues that we addressed in D.89-12-057.

In this case, as in PG&E's recent general rate case proceeding, much of the controversy about DRA's FEIP has focused not so much on the specific principles DRA proposed as on whether or not we should adopt a set of explicit written principles for use in evaluating DSM programs. We believe we have already stated a series of principles for evaluating DSM programs. These principles have been set forth in the various decisions we have made on DSM issues over many years. Many of the tenets of the FEIP appear to be restatements of policy determinations we have already made and, to that extent, do not need to be adopted again by the Commission. For future reference, DRA should delineate those portions of the FEIP that have already been adopted as Commission policy in prior decisions in order to clarify for parties (and the Commission) which principles are new and which are simply restatements of prior principles.

The issue the parties have spent a great deal of time discussing in this case is whether we should continue to make policy in the context of individual cases or adopt in one proceeding standard written principles clearly stating our policies. We are sympathetic with the intent of the FEIP but, for a number of reasons, we do not feel comfortable adopting the entirety of the FEIP for all of the utilities at this time.

First, we do not believe that SoCalGas's general rate case is the appropriate forum for adopting general principles for all utilities. The mere fact that other utilities filed appearances in this case and attended the cross-examination of DRA's witness does not provide adequate notice that issues directly affecting all California energy utilities would be considered. In these circumstances, we could not apply the FEIP to any utility other than SoCalGas.

Even focusing just on the FEIP for SoCalGas, we are concerned that explicit written principles may be too restrictive to account for changing circumstances. We have recently expressed an interest in giving utilities incentives to promote DSM programs,[1] and we are aware that several parties are meeting to develop proposals on this topic. If we are able to incorporate incentives into our DSM programs, portions of the FEIP could become out-of-date within months of their adoption. In less dramatic fashion, other changes in circumstances could also come into conflict with the principles. While we are aware of some abuses of the traditional flexibility given to utilities on spending DSM funds,[2] we are reticent to restrict utility flexibility in program management at this time.

Some of the specific FEIP also raise concerns.

As Edison has pointed out, the inflexibility of principles which espouse the development of "preferred fuels" for specific applications could conceivably, as energy technologies progress, lead to inappropriate fuel uses in some applications. Further, we believe that the identification of preferred fuel uses for specific applications requires a great deal of work not only by the utilities and this Commission but other state agencies, most prominently the CEC and DGS.

To the extent that the FEIP restate existing policies, we question whether they are needed. To the extent that they incorporate new policies, we have not had time to consider each of

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1 On July 20, 1989 at an en banc hearing on the status of the Commission's DSM programs, a number of organizations, including many parties in this proceeding, expressed an interest in a "collaborative process" on DSM policies. This collaborative group has been meeting since July to formulate proposed policies and initiatives that will be presented to the Commission early next year.

2 In an advice letter filed November 8, 1989, PG&E is seeking authority to dispose of over $70 million of DSM funds which had not been expended.

these changes because of the time constraints on the general rate case. As we have mentioned, the parties tended to focus on the larger question of the need for a statement of principles, and we have not had the opportunity in this proceeding to consider in detail each of the 65 tenets.

While deciding not to adopt the FEIP in their entirety, there are portions that we find not only useful but necessary to be adopted. The first two of the "absolutely critical" principles delineated by DRA have much value. We agree that energy efficiency programs and load management programs are the appropriate portion of all DSM programs which are intended to serve as alternatives to supply-side options. This is not a criticism of what utilities consider DSM--just because a program does not serve as an alternative to supply-side resources does not make it worthless. Many of these other programs, as DRA itself admits, serve useful purposes. But in considering programs that can contribute to deferring the need for new resources, we need to be selective and, thus, we agree to adopt DRA's categorization.

The second critical principle asks for the Commission's endorsement of the TRC test as "representative of the costs and benefits which should be used to compare" demand-side and supply-side options. The TRC test is a comparison of the benefits of program-induced load reductions, valued at marginal costs, and total program costs, including participant costs, of installing and operating the efficiency improvements. The TRC cost-effectiveness determination, as embodied in the joint <u>CEC/CPUC Standard Practice Manual for the Economic Analysis of Demand Side Management Programs</u>, appears to us to be the proper basis for evaluating the cost-effectiveness of demand-side options.

As to the other critical principle identified by DRA, regarding the development of guidelines for the movement of funds between programs and spending amounts different from authorized levels, we are not inclined at this time to adopt DRA's recommendations. As stated earlier in this section, flexibility in allocating DSM funds is a traditional prerogative the Commission has afforded to utilities. It allows utilities to respond to circumstances between rate case cycles and improve the performance of their DSM programs. While we do not wish to adopt DRA's proposal in this general rate case, we would like to see a forum for their focused analysis so that, if deemed necessary, the Commission could adopt some funding guidelines.

On this last "critical" principle, and the other FEIP not explicitly considered here, we would like to see their further consideration in another forum. We await the results of the collaborative process before deciding on a more rigorous approach, including the possibility of using whatever proceedings may follow from the collaborative process to consider these concepts.

We add that, as has been our practice over several general rate case cycles, the RIM Test is also key in assessing DSM programs, and should be considered of secondary importance in relation to the TRC Test.

e. Museum of Science and Industry Exhibit

SoCalGas owns computer equipment and software at the Museum of Science and Industry in Los Angeles which is used for displaying exhibits that increase visitors' awareness of the value of energy resources. The exhibits are designed to capture the attention of school children in grade levels 6 through 9.

DRA recommends that the capitalized expenditures of $1.303 million should be disallowed for ratemaking purposes and removed from the 1990 test year rate base for reasons including that the exhibits are image-enhancing in nature and provide no substantive benefits to the ratepayers.

DRA argues that to the extent that ratepayers are ultimately billed for the exhibits which are deceptively presented to be free, they should be allowed to decide for themselves whether such programs are desirable or not. According to DRA, SoCalGas gives the impression it is providing a free service when it is not. Therefore, DRA recommends that SoCalGas should charge its expense for public relations and/or corporate image enhancement to its stockholders.

SoCalGas argues that the exhibit provides the ever-important message of conservation to approximately four million people a year for a minimal cost to the ratepayer. It is an extremely cost-effective method for conveying the conservation message. SoCalGas believes it is creative and interesting to an audience in a way that can influence that audience's energy practices.

Furthermore, SoCalGas believes that the expenditures for the exhibit were properly capitalized. According to SoCalGas, its accounting treatment for the exhibit was appropriate and the costs are reasonable in light of the benefits that ratepayers receive.

We conclude that the exhibits serve the primary purpose of enhancing the corporate image. Accordingly, we will not allow this expenditure as a ratemaking expense.

In its comments on the ALJ's proposed decision, SoCalGas argued that if the $1.303 million was to be removed from rate base, then weighted average rate base should be increased by $384,000 to reflect accumulated deferred taxes. According to SoCalGas, deferred income taxes related to this item through 1989 have already reduced rate base by $384,000. We agree that the adjustment for deferred taxes should be made.

f. Direct Assistance Program

SoCalGas, DRA, and the California/Nevada Community Action Association signed an agreement on October 10, 1989 (Exhibit 201) with regard to SoCalGas' test year 1990 Direct Assistance Conservation Program.

Consistent with DRA's guidelines, the objective of SoCalGas' Direct Assistance Program is to offer low income, elderly, and disabled customers a variety of services aimed at reducing their energy usage and their energy bills. The following menu of services will be provided at no cost to eligible customers:

- Home energy survey
- Energy education
- Installation of weatherization measures/building envelope repair
- Appliance adjustment/repair/replacement
- Referral to low income baseline rate assistance/level pay programs and Department of Economic Opportunity programs.

Direct Assistance service providers will be selected to cover specified geographic areas in SoCalGas' service territory. Each service provider would then perform any or all of the services for which it is qualified, or it may subcontract any of the services to qualified contractors.

The agreement (Exhibit 201) which sets forth the details of the Direct Assistance Conservation Program is attached as Appendix B to this decision. This agreement was served on all parties, and 10 days were allowed for comments to be filed. No comments were received. Subject to the conditions set forth in the agreement, we will adopt the proposed test year 1990 program budget of $20,546,000.

g. Conservation Underspending

During the period 1985 through 1988 SoCalGas was authorized $55.818 million for conservation programs. It spent $51.764 million resulting in underspending of $4.054 million. For 1989, SoCalGas had been authorized revenues of $15.114 million and estimates that it will spend only $14.341 million, a difference of $772,300. In accordance with Commission D.84-12-069 the underspent conservation funds will be refunded to the ratepayors. SoCalGas and DRA agree that the refund should be amortized over a three-year period beginning in the 1990 test year. Including estimated interest of $1.442 million, the total amount to be refunded is $6.268 million over a three-year period.

SoCalGas and DRA also agree that the underspent funds of $6.268 million should be reduced by $2.100 million if the Commission approves SoCalGas' Fuel Cell Program. The Commission conditionally approved the fuel cell program by Resolution G-2871, dated April 12, 1989, stating as follows:

> "SoCalGas is authorized to reallocate $2.1 million from unspent CACs marketing funds to an escrow account for its fuel cell project. If the project is not authorized in the General Rate Case (A.88-12-047), this $2.1 million shall be returned to the ratepayers. The Agreement between SoCalGas and International Fuel Cells would then be null and void."

In its original application, SoCalGas requested $6.6 million of capital expenditures for the fuel cell program. This request was modified to $4.5 million subsequent to the Commission approval of $2.1 million in Resolution G-2871. SoCalGas and DRA agree on the fuel cell program and urge the Commission approval. (Exhibit 110, pp. 15A-16A.)

SoCalGas and DRA agree if the Commission approves the fuel cell program, the underspent conservation funds to be refunded to the ratepayer would be $4.168 million. The $4.168 million figure is the difference between $6.268 and $2.100 million.

We adopt the agreement between DRA and SoCalGas with regard to the fuel cell program.

However, SoCalGas also recommends a $233,000 (i.e., one third of $699,000) reduction of the underspent conservation funds to reflect the impact of the 1986 Tax Reform Act. The amount to be refunded to ratepayers, then, is $1.156 million per year beginning in 1990.

SoCalGas states that the tax rate differential adjustment relating to unspent conservation funds overcollections through 1987 is the result of the reduction in federal and state income tax rates. The tax rates estimated to be in effect in test year 1990 will be lower than the tax rates in effect at the time the overcollection occurred and was taxed. Therefore, the associated revenue reductions in 1990 and subsequent years will result in a lesser tax benefit than the tax cost incurred in the years of overcollection. Both the company and DRA agree that this tax impact is present. SoCalGas recommends that an adjustment to the conservation cost adjustment (CCA) balancing account be authorized to reflect this tax rate differential.

DRA notes that SoCalGas wants to pass on to ratepayers the tax cost associated with the refund. DRA believes that the ratepayers should receive the full amount of the overcollection without deduction for the tax rate change effect.

We are not persuaded by DRA's position that no adjustment should be made to reflect the tax effect. Changes in tax-rates, as they effect over- or undercollections, should have the benefits flowed-through to the ratepayers, and along with the benefits, the ratepayers should accept the detriments. Therefore, we will adopt SoCalGas' recommended tax adjustment.

h. Conservation Cost Adjustment Balancing Account

DRA recommended that an overcollection in the CCA balancing account be included in this general rate case revenue requirement, so that the overcollection could be refunded to the ratepayers through base rates. SoCalGas has a separate annual CCA proceeding and is scheduled to file its next case in June 1990.

During the hearing, SoCalGas filed a motion on June 12, 1989 to exclude from this case consideration of all CCA related issues and to remove them to its concurrent ACAP proceeding A.89-04-021.

The ALJ ruled that the CCA balancing account and conservation related litigation costs should be considered in the CCA reasonableness review or combined in a reasonableness review with ACAP. Accordingly, the CCA and related litigation cost issues were not considered in this general rate case.

In its ACAP proceeding A.89-04-021, SoCalGas requested that conservation-related litigation expenses be recovered through the CCA balancing account. However, in our decision in the ACAP proceeding, we concluded that conservation-related litigation expenses should not be recovered through the CCA balancing account. In addition, we conclude here that the reasonableness of conservation-related litigation expense, including the minor amounts that SoCalGas claims to have inadvertently included in this general rate case, should be determined in SoCalGas' next CCA proceeding to be filed in June 1990. In that CCA proceeding, we will decide on the appropriate ratemaking treatment of any conservation-related litigation expenses found reasonable. Accordingly, SoCalGas may present testimony on the reasonableness of its conservation-related litigation expenses, including Angelus, in its next CCA proceeding.

It should be noted that we have adopted DRA's estimate for Account 925, which includes other litigation costs. It is believed that DRA's estimate did not explicitly include any conservation-related litigation costs; therefore, any conservation-related litigation amounts are not included in the trending for the adopted amount for Account 925. However, if there were any conservation litigation expenses included in DRA's trend, these amounts could be identified in the next CCA proceeding and treated accordingly to avoid any double recovery.

Lastly, SoCalGas requests that its CCA balancing account be extended through its next rate case cycle. SoCalGas cites the additional conservation programs included in the $20.5 million Direct Assistance Program which were negotiated during the course of these hearings. DRA opposes the request.

We note that the CCA balancing account was instituted in 1983 because it was difficult to accurately forecast the cost of these programs which were new at the time. This is not the case now. Therefore, we conclude that the CCA balancing account has outlived its usefulness and should be terminated on December 31, 1989. Thereafter, SoCalGas' conservation expenses for 1990 onwards shall be entered in a separate one-way interest-bearing memorandum account. Unexpended funds shall be returned to the ratepayers at the end of each three-year rate case cycle. SoCalGas shall not be compensated for any overexpenditures.

In SoCalGas' next CCA proceeding, there will be a final accounting and reasonableness review of the CCA balancing account covering the period through December 31, 1989. In the CCA proceeding, we will consider the impact on the balancing account resulting from tax rate changes. We expect DRA's auditors to audit the CCA balancing account prior to commencement of hearings and to address the tax rate change issue. SoCalGas shall present a plan for refunding to the ratepayers the overcollection and may request that the final amount of refund be included in its next ACAP.

9. Administrative and General Expense

a. Account 920 - Administrative and General Salaries

(1) Regulatory Affairs Department

DRA recommended that $317,000 be disallowed for four management positions and one non-management position.

According to SoCalGas the employee count for Regulatory Affairs for the test year is one less than the recorded employee count for 1987, even though there are now far more regulatory proceedings at the Commission than in 1987, and the proceedings have become more prolonged and complex. There has also been an increased need for meetings between the utilities and the Commission staff.

DRA points out that in 1987 six positions were eliminated in Regulatory Affairs because the jobs were no longer needed. This occurred months before SoCalGas developed its rate case request.

We find it significant that SoCalGas eliminated these positions in 1987. One inference is that SoCalGas can manage without these positions. Therefore, we will not allow for funding in the test year. If SoCalGas needs these positions, it should reallocate the funding it receives. We will adopt the DRA adjustment.

(2) Gas Supply Department

DRA recommended that $633,000 be disallowed for 10.5 of the 32.5 additional positions requested by SoCalGas.

SoCalGas states that in this department there are presently 72 management and 30 non-management permanent employees, a substantial increase from prior years. Yet, SoCalGas is requesting funding for only 90 permanent employees (60 management and 30 non-management) for test year 1990, a decrease from present levels. DRA was proposing a decrease from 1989 staffing levels.

DRA believes some new positions are needed but that SoCalGas' total request is excessive, since it represents a 56% increase in employee count from 1987. DRA notes that the 102 employees (72 + 30) cited by SoCalGas include temporary employees. According to DRA, test year expenses should not be based on utility-designated temporary expenses that, by definition, will not exist in the 1990-92 period. The comparison should be based on the total permanent employees count of 90 employees.

We disagree with DRA's position on expenses for temporary employees. There is no reason why temporary employees should be excluded from a test year simply because they are temporary. Also, we disagree with DRA's argument that since gas throughput has declined by 6.6% during the 1987 to 1990 period, there should be a resulting decline in gas supply department activity. As pointed out by SoCalGas, the workload is not tied to the level of throughput. The increased workload results from the complex operational environment created by the Commission's deregulation program.

As we understand SoCalGas' request, the company now has 102 employees but requests funding for 90 employees in the test year. Given the increased complexity of SoCalGas' transportation and storage banking programs, and the changes in the natural gas industry, we conclude that the company's request is reasonable, given the current level of employees. SoCalGas' request should be adopted.

(3) Headquarters Building

DRA recommended a $256,000 adjustment which is discussed later under Account 930.

b. Account 921 - WMBE Program

Both SoCalGas and the Commission's Women and Minority Business Enterprise (WMBE) Program Staff (Staff) presented testimony regarding SoCalGas' efforts to increase the participation of women and minority owned business enterprises in the utility's products and services procurement program. SoCalGas' testimony described the organization, operation, and successes of its WMBE program.

As reported by SoCalGas and confirmed by the Staff, the utility in 1988 spent $39.5 million or 11.26% of its total corporate procurement expenditures with WMBEs. Minority owned business enterprises (MBEs) received 5.89% of the company's total procurement dollars, and non-minority women business enterprises (WBEs) received 5.37% of the total.

We note that SoCalGas significantly exceeded its 1988 WBE goal of 4.21%, but fell short of its 1988 MBE goal of 6.44%. In its testimony, SoCalGas indicated that it did not meet its MBE goals because MBEs were not as competitive. However, the company's testimony proposed that improved outreach in this area would increase the competitive level and participation of MBEs. The Staff agreed that this proposed approach might prove helpful.

Also, while the Staff recognizes SoCalGas' accomplishments to date, it also believes that the company's WMBE program can be further improved. It has offered several suggestions for improving the company's program. Of significance is Staff's suggestion that SoCalGas should specifically target and improve the low participation of business enterprises owned by minority women. The Staff suggested that one means of targeting minority women businesses would be to set goals for these particular business enterprises.

We note that on August 4, 1989, the Commission adopted such goal-setting in D.89-08-041 (p. 11), which amended Section 6.3 of General Order 156 to require that such goals be established for both minority women owned business enterprises and non-minority women owned business enterprises. These goals are intended to ensure that utilities do not direct their WMBE procurement programs toward non-minority women and minority men owned business enterprises to the detriment or exclusion of minority women owned business enterprises. And we reiterate the need for such goals as a method of improving the low participation of minority women owned businesses.

While we recognize the relative success to date of SoCalGas' WMBE program, despite the problems noted above, and we commend SoCalGas for such achievement, we believe even a relatively successful program can be improved. We expect the recommendations presented in the Staff's testimony for improvement of the company's program to be implemented by SoCalGas.

In Exhibit 50, DRA recommended that SoCalGas' $445,000 request for the expenses of the WMBE program be found reasonable. In addition, SoCalGas and DRA agreed that when the contract for the

Clearinghouse is signed the actual cost should be included in Account 921.

On May 2, 1989, Cordoba Corporation was selected by the Commission Clearinghouse Advisory Board as the contractor to operate the Clearinghouse. Exhibit development, contract revisions, and contract negotiations were completed on August 11, 1989, and the Clearinghouse Advisory Board approved the negotiated contract at its meeting on August 15, 1989. Actual costs to SoCalGas for the Clearinghouse operations for 1990 will be $460,000 in payments to Cordoba Corporation and $35,000 in miscellaneous costs, for a total of $495,000. These costs will be adopted.

Also, the actual 1991 and 1992 Clearinghouse contract incremental costs should be used for the respective attrition periods as a special item.

Lastly, with regard to other office expenses, DRA recommended a productivity adjustment of $408,000 to Account 921 related to the new headquarters building. This adjustment is discussed later under Account 930.

c. <u>Account 923 - Outside Services Employed</u>

SoCalGas' adjusted request is $19.203 million. DRA recommends a reduction of $2.815 million.

The DRA recommendation is the result of: (1) adjusting recorded 1987 expenses downward by $1.165 million for DRA audit adjustments, including $989,000 for "three-factor allocation" and $176,000 for various other relatively minor items, $164,000 of which were agreed to by the company and (2) applying a customer growth cap factor of 6.6% to this 1987 adjusted recorded expense amount.

SoCalGas derived its estimate by forecasting the various individual functional accounts.

(1) Three-Factor Allocation

Costs for certain services provided by Pacific Enterprises (PE) to SoCalGas are allocated based on a Commission-approved three-factor allocation formula (D.86-01-026, p. 44), which is based on the preceding year's recorded revenues, expenses, and payroll of PE and its subsidiaries. The three-factor allocation percentage is used for determining the costs of services to SoCalGas from PE's Treasury Department, Shareholder Services, Investor Relations, Information Systems, and Corporate Communications, including overhead expenses. The only disagreement between the company and DRA on this issue is the three-factor allocation percentage for the test year. The company has requested 47.7%, which is the 1989 allocation percentage, and DRA has proposed 29.7%.

DRA's estimate for this account was derived by taking the last four years recorded allocation percentages and trending them into the 1990 through 1992 test years.

SoCalGas argues that DRA's recommended percentage allocation is based on the assumption that PE will continue to diversify through 1992 to the same extent it did from 1985 through 1988. However, according to SoCalGas, this assumption is contrary to the facts.

SoCalGas contends that the period 1985 through 1988 was a period during which PE experienced the most rapid diversification in its corporate history. According to SoCalGas PE's recent history of rapid diversification represents essentially a "non-recurring" event. PE has made it clear to the public and to its shareholders that its plans for the foreseeable future are to work on integrating its recent acquisitions, and not to make any major acquisitions in the near future. PE's diversification push experienced in recent years was essentially completed by the end of 1988. SoCalGas notes that the Chairman of the Board of PE explained this in his May 11, 1989 speech to the annual shareholders' meeting, as follows:

> "With the acquisitions of last year we accelerated our program to take advantage of particularly good opportunities. This used up our capacity for further acquisitions for some time to come. The time for digestion is here. We have no plans now for any sizeable acquisitions either in our present lines of business or in any other. Our efforts are devoted now to the consolidation and integration of our acquisitions and to the internal growth of our businesses. We are concentrating on increasing our earnings and cash flow. We have reduced our capital spending plans in line with current economic trends, and we are selling some assets that are not part of our long-term strategy." (Exhibit 151, p. 14, emphasis added.)

Therefore, SoCalGas believes that its factor based on 1987 recorded figures is consistent with the current status of PE's acquisition program.

DRA's response is that the company has had to rely on biased public relations testimonials at stockholder functions as a subjective basis for the request of over $2.5 million in PE allocated charges. According to DRA, SoCalGas has failed to provide any competent documentary support or a witness with direct knowledge that PE will not be further diversifying into additional retail and/or oil and gas ventures. DRA believes that its lower three-factor allocation percentage appropriately reduces 1987 recorded figures by $989,000.

(2) Growth Cap

DRA notes that in the Edison general rate case, the Commission characterized Administrative and General (A&G) expenses as either controllable or uncontrollable. (D.87-12-066.) In that decision the Commission states:

> "Edison carries the burden of proving that its request is reasonable. This is especially true for A&G accounts which are a catch-all for

> expenses which have no specific identification." (D.87-12-066, pp. 30-31.)

In a prior PG&E general rate case decision (D.86-12-095), the Commission states:

> "In the last several rate case decisions for the major energy utilities, we have expressed our frustration at the seemingly endless escalation of A&G expense. For lack of anything better, we used customer growth as an indicator or reasonableness. It was not our intention that customer growth be used as an absolute cap but it certainly places a <u>heavy burden on the utility to justify a requested increase that is in excess of estimated customer growth</u>." (D.86-12-095, p. 160, emphasis added.)

According to DRA, SoCalGas has not met its "heavy burden" to justify its large proposed increase. Since detailed reasons for the large proposed increase were not provided, DRA used the Commission's prior guidelines and increased the adjusted 1987 level by the estimated customer growth rate of 6.6%. This results in DRA's recommended expense level for Account 923 being $2,815,000 less than SoCalGas'.

(3) <u>Library Tower</u>

SoCalGas states that the principal increase in Account 923 in the test year over recorded 1987 expenses is due to a $2.513 million increase in occupancy charges from SoCalGas' parent PE, related to its move to new office space in Library Tower in 1990 from its current location at Chase Plaza. The rental expense for Chase Plaza that PE has been incurring and billing to SoCalGas on a pro rata basis is $7.20 per square foot, which is far below current market rates. When PE moves to its new facilities in 1990, its rental per square foot will increase to $30.19, which is a current market rate in downtown Los Angeles.

DRA response is that there is nothing in the record to indicate why PE is moving from apparently modestly priced accommodations at $7.20 per square foot to the extreme of brand new office space costing $30.19 per square foot, or why SoCalGas' ratepayers should automatically have to pay for it. DRA points out that there is no evidence establishing the reasonableness of that rental rate for SoCalGas.

DRA notes that it has not separately recommended a separate disallowance of PE rental costs because all PE expenses billed to SoCalGas are proportionately recommended for disallowance. DRA recommends a forecasted level of expenditure that is built on the 1987 actual expenses minus DRA audit adjustments, plus the reasonable measure of customer growth (with inflation adjustments to bring the estimates for 1987 into 1990 dollars). DRA's method achieves a proportionate recommended adjustment for all PE expenses, including rents.

(4) Legal Expenses

PE provides legal services to SoCalGas. These services are billed monthly. DRA contends that SoCalGas has failed to establish that its recorded 1988 legal expenses were reasonable. DRA argues that since SoCalGas used 1988 expenses as the base onto which it "pancaked" its 1990 expenses, the Commission should not allow such pancaked expenses on the assumption that recorded expenditures must be reasonable.

SoCalGas points out that the hourly rate for PE attorneys in 1990, including increased costs related to Library Tower and inflation through 1990, is $147.57 per hour. This hourly rate is below the current rate of $150 per hour granted by this Commission to Toward Utility Rate Normalization (TURN) for attorney fees when they act as intervenors in rate cases. In a recent decision (D.89-03-018) TURN was authorized compensation for the years 1986-88 at rates varying from a low of $150 per hour for 1986 to a high of $185 per hour for 1988. Therefore, SoCalGas asserts that PE's 1990 rate of $147.57 per hour is reasonable by comparison.

Further, SoCalGas points out that the recorded attorney billable hours for 1987 were 58,359 and the estimate for 1988 was

62,800 hours. Actual 1988 attorney billable hours of 62,744 were almost identical to those estimated. The 1990 estimate for attorney billable hours is 61,560, more than 1,000 hours below those recorded in 1988. According to SoCalGas, attorney billable hours and expenses for 1990 are underestimated.

(5) Miscellaneous Adjustments

DRA recommended miscellaneous adjustments totaling $725,000. SoCalGas agreed to $164,000 of these adjustments. However, SoCalGas disagrees with the remainder. DRA's recommended disallowances are for portions of expenses related to Federal Energy Regulatory Commission (FERC) California pipeline proceedings, consultants, training workshops, earthquake studies, PE legal support services, and expert witness fees. SoCalGas believes that the $725,000 amount should not be adopted if the Commission adopts the growth cap proposal.

(6) Discussion

Since SoCalGas' request for the test year exceeds the customer growth rate, SoCalGas must meet a heavy burden of proof.

The three-factor allocation is a major component of this account. Aside from stating that its 47.7% factor estimated for 1990 is based on 1987 recorded expenses and providing a statement by the Chairman of the Board at a stockholders' meeting, the company has provided insufficient support for the reasonableness of its allocation factor in the test year. Therefore, some adjustment to SoCalGas' request is appropriate.

On the other hand, SoCalGas is entitled to an increase to reflect reasonable PE rental expense. Simply because SoCalGas passed-through to the ratepayers the below-market rental rate of $7.20 per square foot that PE was paying prior to the test year, that should not prevent the company from recovering a reasonable allowance for rent expense.

The reasonableness of the new rate of $30.19 per square foot need not be addressed at this time, since it is related to the rate that SoCalGas will be paying when it moves to its new headquarters building, which is the subject of a separate phase in this proceeding. Nevertheless, we believe it should be taken into consideration when deciding on an adopted level of 1992 attrition year expenditure. Accordingly, we will allow SoCalGas to recover in its 1992 attrition filing, the difference in PE rental expense for 1992, based on the rate found reasonable for SoCalGas in the new headquarters phase. However, the total for Account 923 in the 1992 attrition filing should not exceed SoCalGas' request for 1990 plus inflation. SoCalGas may submit an exhibit in the new headquarters phase on the PE rental issue.

With regard to legal expenses, we do not find DRA's arguments persuasive. As pointed out by SoCalGas, the hourly attorney rate of $147.57 per hour is below the rate the Commission allows TURN. Also, the number of attorney hours for the test year compares favorably with recorded hours for 1987, and is more than 1,000 hours below recorded hours in 1988. The fact that SoCalGas based its estimate on 1988 recorded hours does not automatically render the estimate unacceptable. Accordingly, we conclude that SoCalGas' estimate for PE legal expense is reasonable.

Regarding the DRA adjustment of $725,000 for miscellaneous items, we note that SoCalGas has accepted $164,000 of this amount. We do not agree with DRA's position on the remainder. Items such as workshops, earthquake studies and consultant fees are recurring items and are appropriate management expense items which should not be disallowed. Accordingly, we will not adopt the $561,000 ($725,000 less $164,000) remainder of DRA's proposed adjustment.

In summary, we believe that Account 923 expenses in particular need to be carefully controlled, since they are a major component of total Administrative and General (A&G) expense. The Commission has repeatedly expressed its concern regarding the seemingly endless increases requested by the utilities for A&G expense.

We note SoCalGas' argument that the principal reason for the increase is the additional $2.5 million for PE rental expense. While we agree that SoCalGas is entitled to receive reasonable PE rental expense, notwithstanding that PE is expecting to move to its new offices in 1990, we conclude that for 1990 and 1991 SoCalGas should reallocate its funding to offset this increase. While we agree with SoCalGas that the cap on growth of A&G expense is not an absolute cap, we conclude that it is reasonable to apply the cap to 1990 and 1991 expenses. Accordingly, for 1990 and 1991, we will adopt DRA's estimate with the addition of $561,000 for the miscellaneous items discussed above. However, for the attrition year 1992, SoCalGas may recover the additional cost of PE rental expense.

d. Account 925 - Injuries and Damages

The disagreement between SoCalGas and DRA relates to: (1) use of a four-year base by SoCalGas in contrast to a five-year base by DRA, and (2) SoCalGas' refusal to provide complete documentation from its files because of attorney-client privilege.

SoCalGas states that because these costs have been rising faster than inflation in recent years, it used a four-year trend in estimating test year expenses rather than a five-year trend, as had been used in the past. DRA used a five-year trend and recommended adjusting Account 925 downward by $90,840 on that basis.

SoCalGas notes that the recorded expense for 1985 is $4.928 million. For 1986 it rose to $7.103 million and for 1987 it reached a peak of $8.011 million. The estimates for subsequent years have declined because SoCalGas has had some success in controlling these costs through balancing its level of self insurance against projected claims settlements, and through a projected decrease in premiums for 1988-90. However, SoCalGas argues that the declining trend does not approach the relatively low 1985 level. To go back an additional year to an even lower 1984 level to establish a trend for the 1990 estimate, as DRA recommends, would be to deprive SoCalGas of the revenues it will need to meet the higher cost levels that have been firmly established in recent years.

Further, SoCalGas notes that it used an estimate for 1988 costs as part of its trend for estimating 1990 expenses. DRA used recorded 1988 costs which resulted in the 1990 estimate being adjusted downward by $124,944. Significantly, DRA did not use 1988 recorded for all other accounts in this proceeding. As it turned out, recorded 1988 was lower than expected because a number of cases that SoCalGas anticipated would be litigated or settled in 1988 were not resolved during that year. Instead, they have been carried over into 1989, with the result that actual 1989 costs have thus far been substantially above the 1989 budget. Therefore, SoCalGas argues that if the Commission were to reduce the test year 1990 amount solely because the 1988 estimate was higher than the recorded figure, the 1990 estimate will be substantially understated--not because 1988 estimated costs were not incurred, but only because they were incurred somewhat later than originally planned.

With regard to the attorney-client privilege issue, SoCalGas states that a small number of cases involved either on-going litigation, or cases where, although the files have been closed, there is a substantial likelihood of future litigation involving the same or similar issues. With respect to the latter category of files, SoCalGas removed certain selected documents protected by the attorney-client or attorney work-product privileges before showing the files to the DRA auditor. The auditor was shown all nonprivileged documents in these files. There were nine files in this category. With respect to all other claims cases, the auditor was shown the complete files, including privileged documents. There were about 40 to 45 cases in this category.

The DRA auditor recommended a downward adjustment of $237,421 "for unsubstantiated costs in cases where the company would not provide complete files." His rationale was that he needed to see all contemporaneous documentation, including privileged materials, before he could assess whether or not SoCalGas' decisions to resolve these cases were reasonable. Because SoCalGas had withheld privileged documents in certain cases, the DRA auditor recommended the downward adjustment for costs expended in four cases: McConkey, Davis, Angelus, and Horrigan. However, Angelus was a conservation case whose costs were placed in the CCA balancing account. It was not included in the trends for estimating 1990 costs, and it was subsequently excluded from this case along with the CCA balancing account. The company included only $5,000 of costs related to Horrigan in its trends for 1990, and that case therefore had a negligible impact on the revenue requirement. Thus, as a practical matter, the DRA auditor's recommended adjustment concerned only the McConkey and Davis cases.

According to SoCalGas, disclosure of privileged documents to DRA in the McConkey and Davis cases would create a high degree of risk that the privilege would be waived as to the documents disclosed. The resulting potential for harm and increased costs to the ratepayers is unacceptable to SoCalGas.

It is the company's position that if it were to disclose the attorney-client material in the McConkey and Davis cases to DRA in this proceeding, and subsequently be sued in federal court on a related matter, these privileged documents would be subject to discovery by the opposing parties in that proceeding.

SoCalGas believes that its handling of the McConkey and Davis cases was reasonable, the nonprivileged documents that were available in the files for the auditor's review contain all the factual information necessary to judge whether or not the company acted reasonably.

Lastly, SoCalGas agrees to a DRA recommended adjustment of $25,914 related to the Duignan case where the PET attorney failed to attend a summary judgment hearing.

DRA argues that SoCalGas incorrectly claims that DRA used a five-year base merely to "lower the request." DRA's method was consistent with how SoCalGas made its projections in its Notice of Intent (NOI) workpapers for test year 1988. Furthermore, in SoCalGas' last fully litigated rate case, the Commission adopted DRA's use of a five-year base for test year forecasting in this area. (D.84-12-069, p. 59.)

With regard to the documents not released by SoCalGas, DRA states it needs complete documentation in order to evaluate the reasonableness of any settlement or issue. DRA points out that the validity of DRA's concerns in this area were underscored by the circumstances of the Duignan case. Originally, SoCalGas refused, under a claim of attorney-client privilege, to allow DRA auditors access to certain documents in this case file. After DRA counsel contacted SoCalGas' attorney regarding this issue, the Duignan documents were made available. As it turns out, the alleged privileged documents revealed that the PE attorney who represented SoCalGas in the Duignan matter was negligent. This resulted in a greater settlement cost. Therefore, according to DRA, none of the various methods now suggested by SoCalGas as ways to ascertain the reasonableness of the company's settlements would have revealed the pivotal ratemaking issue in the Duignan case.

DRA believes that the Commission's extremely broad discovery powers represent a legislative determination that, in order for it to properly regulate monopolies, the Commission must have access to all information germane to its regulatory responsibilities, including information which in a civil court context may be protected by the attorney-client or attorney work-product privilege. DRA points out that in the instant case the Commission does not have access to the very documentation it needs to review SoCalGas' request and therefore has no reasonable basis to allow funding.

We note that the Supreme Court of the State of California is currently reviewing a SoCalGas case, D.87-12-071, related to waiver of the attorney-client privilege. A decision in that case may be issued shortly and could impact this matter. Accordingly, we will preserve SoCalGas' rights in this case. We will adopt DRA's adjustment of $237,421 related to the cases on which the company did not provide complete files. However, SoCalGas may recover this amount in a subsequent general rate case after DRA reviews the complete files on the McConkey, Davis, and Horrigan cases. Angelus is not included because it is a conservation case and such costs were recorded in the CCA balancing account, which was excluded from this proceeding pursuant to an ALJ ruling.

With regard to whether a four-year trend or a five-year trend should be used, we are not persuaded that we should change from a five-year trend, as has been used in the past, to a four-year trend as proposed by SoCalGas. Accordingly, we will adopt DRA's recommended decrease of $91,000 which reflects use of a five-year trend.

DRA, in its comments on the ALJ's proposed decision, points out that the ALJ overlooked its recommendation to treat workers' compensation expenses as non-standard for escalation purposes. The impact on test year expense is a decrease of $666,000.

We have reviewed the record and agree that DRA's proposed adjustment should be adopted because workers' compensation should be treated like all other insurances with respect to the inflation standard.

e. Account 926 - Employee Pensions and Benefits

For these expenses in the test year, the company requests $97.966 million. DRA recommends a reduction of $21.493 million. The differences are as follows:

Pensions	$ 6,441
401(h) Account	8,944
Workforce Adjustment	1,852
Benefit Fees and Services	1,301
Retirement Savings Plan	572
Medical and Dental Expense	663
Employee Activities	1,576
Moving and Relocation Costs	102
Education and Training	42
	$21,493

(Thousands of Dollars)

(1) Pensions

The differences between DRA and SoCalGas relate to the different factors used to calculate pension expense as follows:

	DRA	SoCalGas
Wages	5.5%	6.0%
Inflation CPI	5.5	5.5
Return on Assets	9.5	7.5
Assumption Forecast Period	5 yrs.	40 yrs.

SoCalGas argues that DRA's use of a salary increase assumption equal to the Consumer Price Index (CPI) is inappropriate; this means that no employee will receive real wage increases. DRA, also, has made no allowance for promotional increases which SoCalGas estimates at 1% based on a study of 5,763 employees from 1981 to 1989. Treasury Regulation 1.412(c)(3)-1B(4) states:

> "(ii) Projection to appropriate salary. Under reasonable funding method, salary scales reflected in projected benefits _must_ be the expected salary on which benefits would be based under the plan _at the age when the receipt of_

> benefits is expected to begin." (Emphasis added.)

SoCalGas notes that the above-cited regulation requires the use of salary as of the retirement date. That would include promotions up to that date.

With regard to return on assets, SoCalGas disagrees with DRA's use of short-term (five-year) data since it is not representative over time. Real yields (net of inflation) in security markets during this current five-year period are at historic highs which cannot be projected to continue indefinitely.

SoCalGas asserts that the spread between the wage assumption and return assumption is more critical than the absolute values. DRA's recommendation has a 4.0% spread between assumptions (5.5% wage and 9.5% return). SoCalGas' differential is 1.75% (6.0% wage and 7.75% return). SoCalGas' actual differential for the 1969-87 time period was 2.1% (8.0% wage and 10.1% return). According to SoCalGas its spread assumption for the test year is about equal to the actual experience over the past 19 years; the small difference is due to the higher inflation during that period. Also, the 1.75% compares very closely to broad-based surveys from utilities and non-utilities which show spreads of 1.55% and 1.82%, respectively. More than 1,000 companies were included in the utility survey. Therefore, DRA's spread of 4.0% is not realistic.

DRA contends that SoCalGas' assumptions are not in compliance with Internal Revenue Manual 7(10)5(10), Actuarial Guidelines Handbook, Chapter 400, Section 430, "Testing Reasonableness of Assumptions", which states:

> "(1) Generally, a plan should be allowed at least a three-year period to establish the reasonableness of the actuarial assumptions. The period being analyzed is the period preceding the valuation with respect to the year being examined. If more experience is available, an analysis may be based on more years. However, as the period is extended, the effect of older

> experience becomes less meaningful. A period of about five years is considered reasonable."

Therefore, DRA believes that the Commission should use a five-year period as the base for calculating ratemaking pension expense.

Further, DRA takes exception to SoCalGas' 1% "promotional increase" additive to the wage increase assumption because it has no basis in policy or practice. No Internal Revenue Service (IRS) code or regulation explicitly states promotional increases must be incorporated into the wage increase assumption. SoCalGas' historical data shows that SoCalGas' wage assumption is not related to actual pay increases and this is exacerbated by the inclusion of the 1% promotional additive. The wage increase assumption which SoCalGas is using to determine pension costs is inconsistent with current realities and future expectations. Given reductions in workforce requirements and the general softening of wage demands for the utility industry, DRA believes it is unrealistic to assume that wage increases will mirror the trends of the 1970's and early 1980's.

With regard to spread or differential between the wage assumption and the rate of return assumption, DRA believes that the comparison used by SoCalGas is unsound because it includes non-utilities and companies with different employee demographics and asset portfolios. According to DRA, pension funding and tax decisions are individualistic, especially in a regulated industry.

In summary, it is DRA's position that SoCalGas is using assumptions which, both individually and in the aggregate, overestimate pension cost. More specifically, SoCalGas' wage assumptions were too high during the deflationary 1980's and SoCalGas' rate of return assumptions have generally always been too low. In aggregate, this results in an excessive revenue requirement.

SoCalGas' response is that its actuarial assumptions are in full compliance with federal statute and applicable Treasury regulations. DRA is relying on an internal guideline to IRS personnel for use in auditing taxpayer records as the basis for its five-year time period recommendation.

Included in the pension issue is $985,000 for compliance with new integration and discrimination laws. DRA contends that SoCalGas has provided no basis for this amount. SoCalGas asserts that DRA chose to ignore its response to DRA's data request and Exhibit 149-C.

We are not persuaded by DRA's argument that we should use the most recent five-year period as the basis for estimating returns from pension-fund investments. As noted by SoCalGas, real yields (net of inflation) in security markets during this current 5-year business cycle are at historic highs and cannot be projected to continue indefinitely. It is as inappropriate to use these historical high yields as it would have been to use the negative yields experienced during the 1966-1981 time period discussed in Exhibit No. 39-A. Forecasted pension fund yields must consider the impact of longer term business cycles.

Also, we conclude that using DRA's 5.5% annual wage and inflation increase would not recognize that employees receiving promotions will get a wage increase, and all new employees hired at new entry job grades and salaries will receive a real wage increase.

On the other hand, we agree with DRA that, in aggregate, SoCalGas' request is high. Specifically, we find that SoCalGas' assumed return on investment is unduly conservative and for ratemaking purposes some adjustment is called for. Therefore, we will reduce SoCalGas' pension expense request by 10%. That includes adjustment for the $985,000 amount related to compliance with the new integration and discrimination laws. Therefore, in summary, SoCalGas' base pension expense estimate is $28,842,000 as set forth in Table 1 of Exhibit 149-A. The test year adopted amount is $25,957,800.

(2) 401(h) Account

The issue is whether SoCalGas should continue with its 401(h) account for funding post-retirement liabilities in anticipation of new accounting requirements to be promulgated by the Financial Accounting Standards Board (FASB).

Essentially, the FASB has issued an exposure draft which states that retiree health-care benefits should be recorded on the company's books as a corporate obligation as employers earn them. Currently, this obligation is recorded on a pay-as-you-go basis. The FASB is the accounting professionals' rulemaking body. It considers the current accounting practice inappropriate. Therefore, FASB proposes to require a shift to an accrual accounting basis.

DRA believes that it is premature for SoCalGas to commence funding for post-retirement medical liabilities. DRA would continue with the present pay-as-you-go funding basis. According to DRA, there are too may risks, uncertainties, and too much money involved in the recognition, measurement, and financing of post-retirement medical benefits.

In 1987, SoCalGas commenced funding for this proposed accounting change and established a 401(h) account for this purpose. Accordingly, SoCalGas argues that to continue the 401(h) funding will provide the greatest regulatory flexibility to SoCalGas and the Commission and will mitigate the impact in 1992, when these proposed post-retirement medical liabilities are expected to be recorded in the financial statements of the utilities. SoCalGas notes that the impact of these accounting changes may cause the current level of expense of about $5 million per year to increase to $60 million.

Edison and PG&E filed briefs on this issue. They agree with SoCalGas that to prefund a portion of the post-retirement medical obligation is prudent because the future ratemaking impact of these prefunding obligations can be reduced.

We note that the Commission Advisory and Compliance Division (CACD) has begun a review of the FASB exposure draft and has met with DRA and SoCalGas, as well as most other major utilities. It will draft an OII for the Commission to consider after final action by the FASB. In the meantime, without precluding any of our future options, we conclude that SoCalGas should continue to fund its 401(h) account.

We place SoCalGas on notice that those prior and this test year's contributions plus a reasonable rate of return will be assumed by the Commission to be available gross of tax to offset pay-as-you-go expenses in the next rate case. This will be regardless of whether SoCalGas is able to withdraw the funds or the actual earnings equal to the reasonable rate assumed for the pension fund in this proceeding. Accordingly, we will adopt SoCalGas' estimate for its 401(h) account funding, subject to the conditions set forth above.

(3) Workforce Adjustment

SoCalGas disagrees with DRA's workforce reduction factor of 0.9639575, which was applied against the DRA base pension amount of $20.738 million. This base amount was calculated from the SoCalGas 1988 actuarial report which includes actual employees in the pension plan as of December 31, 1987. According to SoCalGas, DRA fails to acknowledge a workforce increase above this base level by 232 employees in the 1989 through 1990 period. Therefore, DRA in effect has reduced the workforce in this account twice: once by failing to acknowledge the 232 employee increase between 1989 and 1990, and once again by applying the work force reduction factor to the lower, December 31, 1987, employee count. We believe that DRA has double counted this item. Therefore, we will not adopt DRA's recommended adjustment of $1,852,000.

(4) Benefit Fees and Services

SoCalGas notes that DRA used 1988 recorded as the basis for its estimate. SoCalGas argues that since two items that should have been paid in 1988 were not paid until 1989, recorded 1988 is understated and recorded 1989 is overstated.

DRA points out that recorded expense for 1986, 1987, and 1988 has stabilized. 1987 was a peak activity period because SoCalGas commenced funding its 401(h) account. Therefore, use of recorded 1988 as a base is reasonable. Since SoCalGas did not raise the issue of 1989 being overstated until the rebuttal phase, DRA had no opportunity to verify whether 1988 recorded contained 1987 expense, and so on for the prior years.

We adopt DRA's recommended adjustment of $1,301,000, since recorded expense has stabilized and should be representative of the activity in this account.

(5) Retirement Savings Plan

The difference is due to DRA's use of 12 months' more recent data than SoCalGas did. We will adopt DRA's adjustment of $572,000.

(6) Medical and Dental Expense

SoCalGas argues that DRA ignored data which showed that its medical costs were greater than estimated for 1988.

DRA is not recommending a revenue requirement above what SoCalGas requested because of the 1989 impact of the Medicare Catastrophic Coverage Act. DRA believes that SoCalGas will experience savings because SoCalGas pays retiree premiums. Also, DRA notes that SoCalGas did not raise this issue before the rebuttal phase.

We believe that DRA's estimate is reasonable and the adjustment of $663,000 should be adopted.

(7) Employee Benefit Costs

SoCalGas states that such items as service recognition dinners, employee picnics/Disneyland, administrative support for employee clubs/activities, employee retirement administration activities and employee communications costs are employee benefits.

DRA contends that the Commission should disallow all (direct or indirect) charitable contributions, including those which SoCalGas has included in its request for employee pensions and benefits expense.

SoCalGas' response is that the items at issue are not "charitable contributions" prohibited by the cited decision of the California Supreme Court. These activities involve employees and retirees. They have nothing to do with community service or charitable organizations outside the company.

We do not agree with DRA that these items are a charitable contribution, direct or indirect. These are an employee benefit which, if reasonable, should be allowed as a ratemaking expense. The DRA recommendation is not adopted.

(8) Moving and Relocation Costs

We will adopt DRA's estimate since SoCalGas' data response states that all major moving and relocation programs were completed in 1988 and none are anticipated for 1989-91. (Exhibit 169.)

(9) Education and Training

The difference is due to DRA's use of 12 months' more recent data than SoCalGas did. We will adopt DRA's estimate.

f. Account 930 - Miscellaneous General Expenses

(1) Research, Development and Demonstration (RD&D) Expense

SoCalGas, DRA, and California Institute for Energy Efficiency (CIEE) have entered into a written agreement regarding

SoCalGas' RD&D funding for the years 1990 through 1992 (Exhibit 95). The agreement provides that SoCalGas' test year 1990 RD&D budget shall be $8.656 million, rather than the $8.056 million originally requested in SoCalGas' application. The additional $600,000 will be targeted to fund research programs sponsored by CIEE. The agreement also provides for a one-way balancing account applicable for the three-year rate case period. That is, at the end of the three-year period any cumulative underspending will either be refunded to ratepayers or credited toward future expenses. We will adopt the agreement.

In the RD&D area there remain only two relatively minor issues in dispute. DRA recommends that SoCalGas be required to provide an additional benefits assessment study of SoCalGas' research program. DRA also recommends that SoCalGas perform a Gas Research Institute (GRI) benefits assessment study based on completed research efforts which quantifies and qualifies benefits accrued by SoCalGas and its ratepayers from GRI research efforts.

SoCalGas believes there are presently a sufficient number of reporting requirements associated with its RD&D program and with GRI's research program. SoCalGas is not opposed to providing documentation and analysis in support of its research efforts. However, according to SoCalGas, it appears that all the documentation necessary for DRA or for any other party to perform an analysis of research projects is already available.

DRA notes that SoCalGas claims that it seeks "to recover at least 2.5 times the ratepayer-funded monies spent on research". DRA believes it is reasonable that SoCalGas perform an assessment of its own RD&D efforts to see if the quantifiable benefits from completed research do meet or exceed SoCalGas' target of recovering 2.5 times the ratepayers investment.

Also, DRA recommends that SoCalGas perform an in-house benefits assessment of GRI's research to SoCalGas, similar to

PG&E's assessment of the Electric Power Research Institute's (EPRI) benefits to PG&E.

DRA submits that SoCalGas ratepayers and the Commission should have the opportunity to know how and what benefits are derived from the utility's research activities, whether through GRI's or its own efforts.

We believe that SoCalGas should consider a portfolio of RD&D programs to include not only low risk projects that are certain to produce ratepayer benefits but some high return projects that are considerably less certain to produce near term benefits. We are also concerned that the Commission and our utilities have ignored the statutory direction embodied in Public Utilities Code § 740.1 to consider the benefits and probability of success for RD&D programs. Accordingly, we believe that SoCalGas should perform cost-benefit assessments, using a societal perspective, for each of its RD&D programs and provide this information to the Commission in its future general rate case filings.

In addition, recent developments, related primarily to SCAQMD's new air quality plan and President Bush's environmental initiatives, may have created an increased need for research programs related to conservation and to improving air quality in southern California. We believe that there may be a need to develop low NOx burners, to develop heavy duty CNG vehicles and related technology, to develop technology designed to reduce emissions from gas burning equipment, and to develop new conservation technologies. Since these areas of research were not addressed by SoCalGas or DRA, we will hold open this proceeding to receive further testimony on such a RD&D program. Accordingly, we direct SoCalGas to submit additional testimony and funding proposals for appropriate RD&D projects related to increasing environmental quality and conservation efforts. This testimony should be served on all parties no later than March 30, 1990. All parties will have an opportunity to submit testimony. Evidentiary hearing will be scheduled thereafter in a separate phase of this proceeding.

(2) Headquarters Expense

DRA made a number of adjustments to SoCalGas' 1990 estimates for headquarters costs based on the ALJ's ruling that transferred the costs associated with the move to the new headquarters building to a later phase of this proceeding. DRA's total A&G adjustment of $1.226 million was made entirely in Account 930. However, the adjustment represents changes to the following A&G accounts: Account 920, $256,000; Account 921, $408,000; Account 930, $255,000; and Account 932, $307,000. In addition, DRA has made a $700,000 adjustment to Clearing Account's expense.

We will adopt these adjustments in the interim pending resolution of the new headquarters issue in the next phase of this proceeding.

(3) Meals and Entertainment Adjustment

DRA recommends a disallowance of $563,081 (1987 constant dollars) of SoCalGas' estimated expenses for meals and entertainment. This corresponds to a 25% decrease in the company's 1987 total reported expenditure in this area of $2,252,325.

DRA contends that SoCalGas' standards for this business expense are loose and the expense levels, uncontrolled. For example, SoCalGas' recorded 1988 expenditure increased 36% over its 1987 total. Furthermore, SoCalGas' spending in this area compares unfavorably to that of other utilities.

DRA's audit revealed that the vast majority of meal and entertainment expenses primarily benefit SoCalGas employees. Outside parties infrequently are in attendance and a substantial number of the audited meal expenses are local, that is, not claimed in connection with business out-of-town travel. According to DRA, such local meals appear the equivalent of a "free lunch" for utility employees.

SoCalGas states that the company has the costs for business meals and entertainment well under management control. Written company procedures, to which all employees must strictly adhere, require detailed explanation and documentation of the amount and the business purpose as a condition for employee reimbursement. The employee's direct supervisor must provide signature approval for each and every reimbursement. Compliance with these strict written requirements is regularly verified by internal audit.

SoCalGas argues that DRA incorrectly concluded that employees are unjustly enriched because they receive a company-reimbursed meal. DRA did not consider that when an employee qualifies for reimbursement, the employee has worked through his/her normal meal period. Thus, the company receives an additional hour of employee time for the cost of the meal. SoCalGas believes these facts fully justify its policy regarding meal and entertainment costs.

We believe that SoCalGas should avoid creating even the appearance that its employees are receiving a free lunch at ratepayers expense. Since SoCalGas' expenditures are out-of-line with the expenses of the other utilities, we will adopt DRA's recommendation.

(4) Open Account Maintenance Fee

DRA states that included in the Open Account Maintenance Fee are the gas purchase costs of SoCalGas from Transwestern and El Paso. The 1990 average payments to these two gas suppliers are $70,075,000 per month. PE is charging SoCalGas 3/8 of 1% on this amount as a credit line maintenance fee.

DRA recommends that the cost of gas be removed from the PE Maintenance Fee calculation. DRA argues that PE should not be allowed to pass on such costs to SoCalGas for such simple services that could just as easily be performed by the utility at no additional cost. DRA recommends an adjustment of $263,000.

SoCalGas states that its test year estimate of $1.1 million is the same as the recorded 1987 cost. This fee is to compensate for the cost of maintaining bank lines of credit. SoCalGas notes that DRA concedes the maintenance fee is calculated in the same manner as an extended line of credit expense from an outside, third-party lending institution.

We do not find DRA's argument persuasive. If SoCalGas uses an outside lending institution the cost will be the same. We will not adopt the DRA adjustment.

(5) American Gas Association (AGA) Dues

As noted in PG&E's test year 1987 general rate case decision, the Commission does not allow recovery of the advertising expense and lobbying expense portion included in AGA dues. (D.86-12-095, p. 212.)

DRA recommends a reduction of $78,000 to SoCalGas' request. Included in this amount is $25,000 related to a difference in the amount of advertising expense that should be deducted. DRA's deduction is based on 1987 recorded information which shows that 43.4% of expenses was related to advertising. SoCalGas' deduction is based on AGA's 1988 operating budget of which 40.5% was allocated for advertising expense. We will adopt SoCalGas' estimate since it reflects more recent data for the advertising expense deduction.

Next, DRA recommends a disallowance of $43,000 for its higher estimate of lobbying expenses.

SoCalGas notes that the AGA presented its own witness on the lobbying expense issue in SoCalGas' test year 1985 rate case and the disallowance adopted by the Commission calculates out at 1%. (D.84-12-069, p. 60.) SoCalGas argues that DRA's 9.6% reduction would disallow all AGA's governmental programs instead of just the actual lobbying portion which calculates out to 1%.

In its comments on the ALJ's proposed decision, DRA argues that this decision should be consistent with PG&E's recent general rate case decision. Therefore, we will adopt DRA's estimate of the disallowance for lobbying activities, since the level of disallowance (9.5%) is about the same as adopted by the Commission in PG&E's recent general rate case decision, D.89-12-057.

Lastly, we will disallow SoCalGas' request for $10,000 for unanticipated expenditures included in this account.

Therefore, in summary, the disallowances for AGA expense are $43,000 and $10,000.

Over the last decade or more, an inordinate amount of Commission time has been spent on this issue. The total adjustment is generally less than $100,000. It does not warrant the kind of micro-management that has been brought to bear on this subject. We expect a formula to be presented in the next major energy rate case proceeding so that this issue can be settled once and for all.

(6) Franchise Fees

DRA agreed with the company's requested franchise fee percentage for test year 1990, which is 1.683%.

We will adopt the estimate.

g. Labor Adjustment

SoCalGas requests a total of $376.4 million for wages and salaries.

(1) Position of DRA

DRA concludes that the company's wages and salaries are 2.48% above the relevant market. However, DRA recommends a disallowance of 2.28% of payroll which amounts to $8,583,000.

Based on its study of proprietary and governmental surveys, DRA's conclusions are as follows:

Occupational Category	SoCalGas Over/Under Market	Weighted by Payroll	Weighted Impact
Clerical	6.53%	27.5%	1.80%
Physical	1.25%	32.4%	0.41%
Prof. Tech.	4.86%	21.6%	1.05%
Sup./Mgr.	-4.04%	17.8%	-0.72%
Executive	-7.87%	0.7%	-0.06%
Comparison with Market		100.0%	2.48%

(Exhibit 131.)

DRA's results are based on the measurement date of July 1, 1988.

DRA recommends that the Commission adopt market parity as the objective standard to assess whether a utility's compensation expense is excessive.

DRA disagrees with the utility's "zone of reasonableness" standard for the following reasons: first, the use of a range results in treating labor expense differently from other general rate case expenses or forecasted items. Because the Commission uses a future test year, all forecasted expenses, capital, and revenues are subject to some error in either direction. Therefore, DRA argues that a point estimate such as market parity rather than some range should be used as a standard for SoCalGas labor expenses.

Secondly, if the Commission were to adopt SoCalGas' range concept, DRA believes that it would set a dangerous precedent encouraging floating parameters for other expenses.

Finally, DRA points out that in Commission received compensation studies to date, the total wages of each utility has been shown to exceed market. DRA submits that if utility compensation were to fluctuate above and below market parity, perhaps a case could be made for a range.

With regard to issues raised by the International Brotherhood or Electrical Workers, AFL-CIO (Union), DRA notes that it has followed the guidelines discussed by the Commission in the test year 1987 PG&E case (D.86-12-095) and the test year 1988 Edison case (D.87-12-066). This included (1) using utility-specific labor market when relevant, especially for physical positions; (2) heavy reliance on the local labor market for clerical and physical positions; (3) obtaining agreement on matches with the utility and outside sources to establish a common data base; (4) using surveys which provide ample sample size and a variety of firms; and (5) considering range of data in putting together the final sample (for example, eliminating part-time janitorial employees from the Bureau of Labor Statistics (BLS) data which have a separate range from full-time workers).

Lastly, DRA notes that in developing parallel and comparable data bases for its SoCalGas wage study, DRA relied heavily on past Commission decisions, consulted closely with BLS, and requested the opinion of SoCalGas regarding its new approach to compensation level evaluation. In its wage and salary study for SoCalGas, DRA believes that it has been conscientious in addressing the Commission's previous concerns.

(2) Position of SoCalGas

SoCalGas notes that both management and non-management salaries are generally established in accordance with the three-year collective bargaining agreement negotiated between SoCalGas and the Union.

SoCalGas disagrees with the DRA recommended disallowance for several reasons: first, the Commission's own standard is to make a ratemaking adjustment only if the proposed wage and salary expense of a utility is clearly unreasonable when compared to the relevant market. Second, the market can never be measured with the finite precision assumed by DRA. Third, SoCalGas' wages and salaries cannot be considered unreasonable when the 2.28% variance estimated by DRA is well within the most optimistic sampling error parameters of DRA's own study. Finally, SoCalGas has presented evidence that, based upon its current Union Wage Agreement and present inflation rates, the alleged 2.28% over market condition will be eliminated by 1990.

SoCalGas notes that the Commission expressed its standard for determining the reasonableness of wages and salaries in the test year 1987 PG&E decision which states:

> "The Commission will not hesitate to make a rate-making adjustment if the evidence demonstrates that the proposed wage and salary expense of a utility is clearly unreasonable compared to the relevant market."

SoCalGas argues that the standard is clearly unreasonable, and the 2.28% which SoCalGas is allegedly over market is certainly well within a reasonable range.

SoCalGas argues that the relevant market with which it is compared is a constantly "moving target." SoCalGas notes that DRA's witness agreed that "given factors that are variables and the way in which they move it would be impossible to equal external labor markets at all times." SoCalGas further notes that Union witness Dickens indicated that the outcome of any study is naturally sensitive to reasonable differences in the assumptions of the study. Given the conditions of a constantly moving target and the subjective variables that comprise an assessment of that market, SoCalGas believes that the fact that it is within 2.28% of the market must be considered reasonable.

Moreover, SoCalGas argues that if SoCalGas is 2.28% over the relevant external labor market, it is well within the most optimistic sampling error of DRA's own study. SoCalGas notes that based on his study, the DRA witness testified that, "one would expect a sampling error of less than 5 percent at the 95 percent confidence level."

Finally, SoCalGas notes that DRA fails to acknowledge that the 2.28% wage differential measured as of July 1, 1988, will be almost entirely eliminated by January 1, 1990.

(3) Position of the Union

The Union argues that as a matter of law, the Commission is preempted from directly or indirectly affecting the results of collective bargaining between SoCalGas and its unions. However, in electing to refute the arguments of DRA, the unions do not waive their basic argument.

A major concern to the Union is that DRA's proposal would be discrimination against SoCalGas' female workers. The unions have made a conscious decision to improve wages for female-dominated positions where wages have historically been lower than male-dominated jobs. For example, in 1988 negotiations with SoCalGas, the unions rejected a bifurcated wage increase (3% for physical workers, a one-time bonus for clerical workers) in favor of a lower, unitary increase (2.5% for all workers). In so doing, the unions made a conscious decision to allocate the total wage dollars available in a manner which favored lower paying, female-dominated jobs, and to finance this decision through throttling back the increase for higher paying, male-dominated physical jobs.

The Union contends that DRA's reliance on external surveys to measure the reasonableness of wages for female-dominated jobs is misplaced. According to the Union, where clerical workers have, for the most part, not enjoyed the protection of collective bargaining, use of such data continues to reflect both present and past discrimination against women.

Next, the Union argues that the precision sought by DRA in its study may not be attained, e.g. the wages of SoCalGas' 26 janitors exceed the market by $0.07 an hour. According to the Union such precision is impossible for the following reasons. First, because of the dynamic nature of the wage market in a free enterprise economy, by its very nature it defies precise measurement.

Second, the wide variation in individual survey results used by DRA impeaches any claim of precision. For example, with regard to clerical jobs, there is a broad discrepancy between survey results among the four primary surveys which DRA relied upon, and there are very few jobs where the BLS and the proprietary surveys overlap. Therefore, DRA's claim of cross-survey validation is suspect.

Third, the lack of any measure of significance or error impeaches any claim of precision. DRA did not identify the standard error of the individual surveys, nor the error resulting when surveys were combined, nor the error resulting from each of the several adjustment factors which DRA applied to the survey data.

According to the Union, DRA achieved a low level of precision for the following reasons. First, the surveys selected by DRA do not accurately reflect the relevant job market. Specifically, the extensive reliance by DRA on data from BLS publications is misplaced. Large human resources departments do not use BLS surveys in setting pay scales. Further, the heavy use of all-industry wage data by DRA is inappropriate. For union-represented employees, DRA used several surveys which analyze an all-industry labor market, not the utility labor market. This is particularly true with respect to union-represented clerical positions. Second, because of the lack of sophistication in wage survey technology, the precision sought by DRA may not be attained. Compared to the use of statistics and hard and soft sciences or actuarial studies, the techniques that are used in conducting and analyzing wage survey data are primitive and cannot provide anything approaching the precision promised by DRA. Third, the final impediment to a precise measurement of a job market's wage level is the ever-moving nature of the wage market, a fact acknowledged by DRA.

Next, according to the Union, the choice by DRA to use July, 1988 as the statistical base for its analysis greatly accentuated the impact of the April 1, 1988 negotiated wage increase for SoCalGas' union employees. The survey results would have been different if DRA had used a later month. The Union asserts that however precise wage survey results may be at a given moment, their precision is short-lived for the labor market does not stand still.

As a solution to the problem of precision in labor studies, the Union believes that the Commission should adopt a "zone of reasonableness" approach since it is impossible for the utility to be equal to the external labor market at all times.

Lastly, the Union notes that the Commission in the past has urged that "informed judgment" be applied to survey data (General Telephone, A.87-01-002), and that adjustments should be recommended only when wages are clearly unreasonable. (PG&E, A.85-12-050.) The Union supports the Commission's notion that wages must be clearly unreasonable to warrant an adjustment.

(4) <u>Discussion</u>

Notwithstanding DRA's assertions that it is not recommending an adjustment to any particular group but to SoCalGas' total payroll only, we have to conclude from the preceding table prepared by DRA that over half of the DRA recommended adjustment relates to the clerical category.

Further, we conclude from DRA's table that the remainder of DRA's adjustment relates to the professional and technical category. 21.6% of SoCalGas' payroll is for this category, and the DRA estimated 4.86% over market wage gives rise to a weighted impact of 1.05% to total payroll.

We understand that DRA's argument is that the utility should pay no more than market. We find this argument shortsighted. Given the investment that a utility has in training its employees to meet the special needs of the utility, we believe that it is appropriate for the utility to pay a little more than market to ensure a lower employee turn-over rate. The weighted impact of 1.05% on total payroll is not an unreasonable premium to pay to safeguard the company's investment in training.

We reject DRA's argument that since it is only recommending an adjustment to total payroll, it is not singling out any particular group for a reduction in wages. DRA analysed each group separately to derive its bottom line figure of 2.48% weighted impact on total payroll, on which is based its recommended disallowance of 2.28% of total payroll. Therefore, it is appropriate for the Commission to evaluate separately the components that formed the basis of DRA's recommendations.

Lastly, we stated in PG&E's test year 1987 decision that we would not hesitate to make a ratemaking adjustment if the proposed wage and salary expense of a utility is clearly unreasonable compared to the relevant market. (D.86-12-095.) That is still the standard. We believe that there is no reason to change this standard given the practical limitations on the accuracy that can be achieved by surveys. In its report DRA did not set forth the precise amount of statistical error inherent in its results. Although, during cross-examination, the DRA witness indicated that the standard error for each of the surveys used by him was about 3%. Overall, we believe that DRA's showing reflected a significant improvement over its prior studies and addressed many of the concerns that we noted with regard to its showings in prior proceedings. However, we are not persuaded that SoCalGas' 1990 test year salaries and wages are clearly unreasonable. Accordingly, we will adopt the SoCalGas estimate.

10. Escalation Rates

a. Labor

SoCalGas and DRA reached a settlement regarding the proposed labor inflation increases. Both parties agreed to use the exact non-management labor escalation rate that will occur in 1990. The rate is based upon the SoCalGas Union Agreemont which calls for the increase to be the "percentage change in the Los Angeles-Long Beach-Anaheim revised CPI for Urban Wage Earners and Clerical Workers, rounded to the nearest .25 percent, if the index for September 1989 has increased over that for September 1988."

Based on this agreement the April 1, 1990 wage level increase is 5.25%. The compounded factor for deriving 1990 labor inflation from base year 1987 dollars is 1.0926 . (Exhibit 81, late-filed.)

b. Non-labor

SoCalGas and DRA agreed to a settlement on the non-labor inflation issues. Until the next test year, SoCalGas will continue to use the Modified Producers Price Index (MPPI), which is the same system adopted for SoCalGas' test year 1985 general rate case (D.84-12-069).

Furthermore, SoCalGas agreed to develop a company-specific non-labor escalation index to be used beginning in SoCalGas' next general rate case test year.

The updated non-labor inflation factors are 5.6% for 1988, 4.6% for 1989, and 2.8% for test year 1990. These factors are based upon the updated MPPI weights provided by DRA and Data Resources Incorporated's October 1989 Control forecast of 1989 and 1990 MPPI components. These annual factors translate into a compounded rate of 13.55% for application to base year 1987 non-labor dollars to derive test year 1990 non-labor inflation. We direct SoCalGas to work with DRA to develop a company-specific non-labor escalation index for use in the next general rate case.

11. Tax Depreciation Method

We shall adopt SoCalGas' vintage account method for plant additions, since DRA agrees that SoCalGas' method is more detailed and correct.

a. Taxes

The difference between the company and DRA relating to tax expense results primarily from the different level of operating expenses, plant additions, and other rate base items recommended by the company and DRA. There are, however, differences relating to tax depreciation method and whether a tax memorandum account should be created.

Issues related to treatment of income taxes related to specific items at issue are addressed separately, along with those items.

b. Tax Memorandum Account

SoCalGas contends that current Commission policy "encourages" utilities to adopt aggressive tax return positions with respect to issues for which there is no definitive authority, in an effort to benefit ratepayers by lowering tax expense. However, this same policy requires utility shareholders, not ratepayers, to assume the additional liability if these ratemaking tax positions are overturned on audit. Commission policy is not to allow automatic recovery of these deficiencies.

SoCalGas argues that the problem inherent in this policy is that it leaves a utility with no equitable recourse by which to recoup any losses that may result from providing this benefit up front to the ratepayers. The prohibition on retroactive ratemaking generally prevents this. Only in those limited situations where the Commission has made special provision for subsequent review of uncertain tax issues has retroactive ratemaking not been a problem. (D.88-01-061, p. 22.)

SoCalGas believes that the frequency with which new tax legislation has been enacted in recent years, combined with the uncertainty that results from the ever-increasing delay taxpayers encounter before clarifying regulations are released, suggests that a more equitable procedure is needed. SoCalGas recommends that use of a tax memorandum account by which it may have the opportunity to seek recovery from the Commission for additional taxes, interest, and penalties that are a direct result of an audit disallowance by the IRS.

DRA opposes the request for the reason that the company's is asking for an open-ended memorandum account. DRA believes that use of a memorandum account for taxes should be limited to specific items identified in a proceeding. There should be no blanket guarantee.

We conclude that SoCalGas' request should be denied. SoCalGas should wait for a general rate case proceeding to request any needed memorandum account. In between rate cases, if an unexpected situation develops with IRS, SoCalGas may request a memorandum account through an advice letter filing or an application.

D. Rate Base and Depreciation

The difference between SoCalGas and DRA on the level of weighted average rate base is $92.3 million. The largest component of the difference is DRA's $49.230 million adjustment related to year-end 1988 recorded plant-in-service balances. There is also a $12.336 million difference caused by DRA's proposed capital expenditures weighting factor. Other differences relate to whether SoCalGas' Flower Street Headquarters should remain in rate base, the level of working cash, and other miscellaneous items.

SoCalGas' proposed plant expenditures for the test year are $393 million. DRA recommends that $17.419 million be disallowed. There is substantial agreement on Depreciation Expense and Reserve, with the major difference involving treatment of SoCalGas' Flower Street Headquarters and the appropriate treatment of the DuPont settlement proceeds.

1. Plant-in-service

a. Recorded 1988 Balance

DRA contends that SoCalGas' estimate of plant-in-service for test year 1990 is at least $49.2 million too high. The primary reason is that SoCalGas badly missed realizing its originally assumed level of Construction Work in Progress (CWIP) to total expenditures in 1988 (a key building year in its arriving at its 1990 estimate). This caused an overestimation of plant-in-service in 1988. As corroborative evidence that the company's 1990 estimate is on the high side, DRA argues that SoCalGas spent about $145 million less in 1988 than it originally estimated that it would need in a 1986 submission to the Commission. Furthermore, the record reflects a pattern of assumptions on the "high side" used by SoCalGas to forecast the CWIP balance (versus plant balances) for rate setting purposes.

SoCalGas notes that DRA's proposed reduction in weighted average gas plant balances of $49.2 million represents the difference between estimated and recorded plant-in-service balances as of December 31, 1988. This adjustment results largely from DRA's contention that the company's estimating method is biased towards overestimating. DRA based this contention largely on the difference between the company's 1988 general rate case NOI which, prior to settlement, would have requested $473 million in capital expenditures.

Further, SoCalGas notes that during cross-examination, the DRA witness acknowledged that SoCalGas' 1988 general rate case had been settled, but he was not aware of the $325 million level of capital spending agreed upon by DRA and the company, nor was he aware of the circumstances surrounding the settlement of the case (D.87-05-027, p. 6).

SoCalGas points out that as part of the settlement, the company agreed to a condition that its rates for 1988 and 1989 would be based on an annual capital expenditure level of $325 million, with any shortfall in capital spending below this limit to be refunded in rates. The only condition placed on the $325 million capital expenditure level was that at least $15 million would be used for SoCalGas' Pipeline Repair and Replacement Program, a condition that SoCalGas has met. In fact, 1988 recorded capital expenditure was $329 million.

Regarding the $49.2 million recommended disallowance, SoCalGas argues that these dollars were actually spent in 1988 but remained in CWIP on December 31, 1988. Recorded CWIP at midyear 1989 is in line with forecasted midyear 1989 CWIP as set forth in this application, plant balances will be right on target, and the disputed amounts will be in the plant balances on January 1, 1990.

We believe that DRA's recommendation stems from a misunderstanding regarding the settlement agreement related to the company's last general rate case. Furthermore, since recorded CWIP at midyear 1989 conforms to the company's forecast for this proceeding, and will be on target on January 1, 1990, there is no basis for an adjustment. The company's estimate should be adopted.

b. Weighting Factor

DRA recommends a $12.3 million rate base disallowance based on its mathematical five-year average approach to determine the timing of capital expenditures included in rate base.

DRA developed a five-year average weighting factor for each plant category. This factor averages normal and major net additions and does not consider the effect of individual project scheduling in the test year. DRA believes that the projected plant project schedules submitted by the company are tentative and subject to delay, as shown by the estimates for the 1988 rate case. DRA believes a five-year average best incorporates the total timing of plant additions to rate base.

SoCalGas notes that it estimates future additions and retirements associated with normal projects on a historical basis, but major project additions are estimated separately based on completion dates provided by its planning units. The reason for handling the major projects separately is that the construction of each project is unique in scope and timing.

SoCalGas further notes that it provided extensive work papers to DRA detailing every project of $1 million and over (major projects). Approximately 30% of the $393 million requested for the 1990 test year is for major projects. This is a much greater percentage than DRA's five-year average of 12% of expenditures for major projects, as derived from its mathematical approach.

We note that DRA's mathematical approach is based on a five-year recorded average which does not account for the scheduling of individual major projects expected to be completed in the test year. Since DRA has the opportunity to review expected plant completion dates almost a year after the utility prepares its NOI, DRA should be able to make a better informed determination whether the company's dates of completion are optimistic. SoCalGas has used the traditional project-by-project estimating approach for major plant items. We are not persuaded that this method, which is typical for all utilities, should be changed. We will adopt the company's plant-in-service estimates with the adjustments discussed below.

c. North Coastal Headquarters

DRA recommends that rate base be decreased by $3.446 million, which is the estimated total cost for the modification and addition to the North Coastal Distribution Headquarters facilities, which was not completed in 1988 as planned. According to DRA, since SoCalGas has postponed the project, this facility does not belong in the 1990 plant balances. The building was supposed to be completed and booked to plant in 1989. Since it will not be booked to plant, DRA removed it from 1989 and 1990 estimates. DRA contends that this project should be considered part of the 1990 rate case since plant balances in 1989 are part of 1990 balances unless the plant is retired.

SoCalGas states that although this project was originally planned for 1988, it has been deferred to 1992. The capital previously budgeted for this project was reallocated and spent for other required projects in 1988. In fact, SoCalGas' recorded 1988 capital spending exceeded the authorized level by $4 million. Therefore, SoCalGas argues that it is inappropriate to reduce plant-in-service for deferred capital expenditures when the costs that were planned initially for one project were actually spent on other projects. Such a result would be no different than saying that the company will not be allowed to spend the full $325 million authorized if its plans change, or that the company has no discretion to reallocate resources among capital projects, a position that is totally inconsistent with general ratemaking principles.

We note that the capital previously budgeted in 1988 for this project was spent for other required projects, and SoCalGas' actual 1988 capital expenditures exceeded adopted by $4 million. The Commission does allow utilities the flexibility to reallocate capital resources because of the need to react to changed circumstances. Therefore, DRA's adjustment is not adopted.

d. Asbestos Removal

DRA recommended that $750,000 of capital expenditures in the test year be deleted from SoCalGas' estimates for the removal of asbestos at the existing North Coastal Division Headquarters.

DRA agrees that while the removal of hazardous asbestos is worthwhile, in this case, the asbestos level is well below the officially set Environmental Protection Agency (EPA) level to qualify as an imminent hazard. This building is scheduled for remodeling just one year beyond the test year. It is cost-effective to wait 12 months and do the removal in connection with other reconstruction work. DRA believes that SoCalGas' should have calculated the probability weighted "cost" of an earthquake and compared it to the cost savings from waiting for the asbestos removal.

DRA appreciates that some employees at North Coastal might be concerned. DRA believes that it would be a better course for SoCalGas to instead spend a fraction of the requested $750,000 on an educational seminar to alleviate any employee concerns, showing them the safe test results.

SoCalGas states that the asbestos in the building ceiling area has become eroded to such a degree that if there were a fire or earthquake affecting the building, it could be rendered uninhabitable. While the current ambient air levels are in the safe range, the company's concern is that the deteriorated asbestos insulation is lying on the top side of suspended ceiling tiles, and that even a relatively minor earthquake could easily dislodge ceiling tiles and cause asbestos to fall into the work areas, thus forcing the staff to evacuate the building while the asbestos is cleaned up and removed. According to SoCalGas, the potential cost to ratepayers if the ceiling tiles were to be dislodged would far outweigh any potential savings from not performing the work.

We are not persuaded that the $750,000 requested by SoCalGas should be included in 1990 expenses. The building is scheduled for remodeling just one year later. In the meantime, SoCalGas should inform employees that the ambient air levels are in the safe range and will be regularly monitored to ensure that there is no health hazard. DRA's adjustment is adopted.

e. Flower Street Building

DRA's alternate proposal is to establish a memorandum account wherein SoCalGas would record expenses of retaining the Flower Street headquarters in rate base. The memorandum account would include a return equal to SoCalGas' overall rate of return. The DRA alternate proposal provides that in the event the pending headquarters gain on sale application is decided in SoCalGas' favor, it could then request recovery of the revenues included in the memorandum account in its next ACAP, attrition proceeding, or similar proceeding.

SoCalGas opposes DRA's alternate proposal because it would modify established accounting procedures and would be administratively burdensome creating additional auditing requirements by both DRA and the company.

We conclude that DRA's memorandum account proposal adequately protects SoCalGas' remaining interest in the Flower Street building which has been sold. This memorandum account will be used to accumulate the costs associated with retaining the Flower Street headquarters in rate base after its sale in October 1987, pending a decision in A.87-07-041 which will determine whether or not the headquarters' undepreciated book value is to be removed from rate base as of the date of the sale or be continued as a rate base expense.

This proposed Flower Street rate base memorandum account should not be confused with the memorandum account established pursuant to D.87-09-076 in A.87-07-041 which ordered SoCalGas to track the costs of maintaining the Flower Street headquarters after the sale relative to the revenues collected by the utility in rates for headquarters expenses.

DRA's memorandum account proposal is adopted.

f. <u>Remodeling Costs at Flower Street</u>

SoCalGas states that there is a need to proceed with certain projects in the Flower Street building regardless of the pending move in mid-1991 to its new building.

The following projects make up the company's revised request of $100,000: (1) $45,000 for installing computer cable to relocate computers connected to main frame computers; (2) $35,000 for cabling and related electrical work needed to change out Datapoint computers; and (3) $20,000 for changes in the card key access control system to increase the security in certain required areas. Since these modifications are needed for the 1990 year, we will adopt SoCalGas' estimate.

g. Multipurpose Engineering Lab and Training Center at Pico Rivera

DRA recommends disallowance of $4 million in construction costs for a multipurpose engineering lab and training center at Pico Rivera.

DRA recommends that the cost of this building be disallowed because: (1) the company's request was not supported by an adequate cost-benefit analysis; and (2) the need for the building was not made clear to DRA witness when he visited the site.

According to SoCalGas, the new combination building will provide updated and expanded engineering lab facilities and meet the need for expanded field personnel training requirements, particularly for hazardous waste handling and pipeline construction and repair. The new building is needed to provide adequate space for the existing laboratories now located in overcrowded quarters in the warehouse building and also to accommodate the Polymer Laboratory, located in a leased building 6 miles away. The building is also needed to accommodate office space for the Material Management staff, currently located about 10 miles away. A majority of the buildings on the site are over 30 years old. A number of work areas are currently overcrowded and do not meet the operational requirements of the work groups. The $4 million cost of the building includes construction of the entire facility, which would be approximately 25,000 square feet for the lab and 20,000 square feet of additional office space. The company's economic analysis showed that the project would produce a net present value of well over $1 million under a "no-growth scenario" and that the cost of lab services performed by outside commercial labs would be 35% more than the cost of the same work performed by company personnel in the new facility. SoCalGas states that it has documented these anticipated savings in its productivity enhancement plans and will track them for future rate cases.

DRA contends that despite its efforts to obtain data to validate the reasonableness of this proposed construction, little useful information was forthcoming from SoCalGas. DRA's witness reviewed the building proposals and the company's responses to data requests, and also made an on-site visit. When DRA issued its prepared testimony: the projected cost of this multipurpose engineering laboratory was not adequately supported by a cost-benefit analysis; the purpose for the building was unclear; and the method of SoCalGas' proffered economic analysis was fault-ridden. According to DRA, SoCalGas so poorly justified its funding request that it was impossible to verify the accuracy of the projected expenditure.

DRA believes it was conscientious in its attempt to ascertain the economic viability of SoCalGas' planned lab. Twice, DRA sent data requests to the company seeking this fundamental information. (Exhibits 185 and 184.) Finally, in response to DRA's request for more information (Exhibit 184), SoCalGas provided its economic analysis (Exhibit 82) which simply states a net present value (NPV) return of $1.2 million. DRA contends that this economic analysis is insufficient because it does not include a discount rate or cash flow table to support the claimed NPV of $1.2 million. It is impossible to calculate or check the validity of a NPV without these two essential items. Having been provided only the final NPV number, DRA could not verify or reproduce it.

SoCalGas acknowledges that the discount rate and cash flow tables do not appear in Exhibit 82, which is its original data response. However, SoCalGas points out that DRA ignores the cash flow analysis which was sent subsequently to the DRA witness showing the year-by-year cash flows. It included a one-page explanation of the discount rate of 11.5236% that was used to calculate the NPV in the cash flow tables.

With regard to the cost-benefit analysis, SoCalGas states that the first indication of the DRA witness' concern was in reviewing the proposed disallowances in DRA's Results of Operation Report (which was mailed on April 13, 1989). Through DRA's response on May 18, 1989 to SoCalGas' Data Request No. 31, dated May 1, 1989, the company learned that the DRA witness had wanted the cash flow tables supporting the study. On May 22, 1989, immediately upon learning of the reason for the proposed disallowance, SoCalGas supplied the supporting cash flow tables (Exhibit 114) which the DRA witness said were "essentially...useless" because they had "no correlation" to the original study. According to SoCalGas, the cash flow tables do correlate to, and do support the study. SoCalGas would have been pleased to respond to any inquiry regarding interpretation of the cash flow tables. Unfortunately, the DRA witness made no such inquiry.

With regard to DRA's argument that the need for the building was not made clear during the witness' site visit, SoCalGas states that the DRA witness' visit to this site was not announced by the parties arranging the visit, or by the witness himself, as being for the purpose of evaluating the need for, or even for discussion of, the multipurpose lab. There was no request to meet with the company personnel responsible for facilities planning. There was no request to tour the present engineering lab. SoCalGas employees from other departments who were on the tour cannot recall the witness requesting any information about a planned building.

We believe that DRA attempts to downplay the importance of the site visit and seeks disallowance of the company's request on the basis that the utility failed to meet its burden of proof. DRA could have made another request or telephone call for the cash flow tables, which apparently were overlooked or not included with SoCalGas' original data response. Similar cash flow tables were provided by SoCalGas for other data requests. However, it is clear that this situation would not have arisen if there was an effort to maintain proper communications during this critical stage of the rate case.

We note that the company's testimony that it needs a building to house an engineering lab which is badly overcrowded and currently split between two locations, approximately six miles apart, and which will return a productivity savings to the ratepayers over time. The proposed building will also house the training facilities. SoCalGas further states that to lease a building or buildings to meet these requirements instead of building on the company's existing land would be far more costly for the ratepayer and would create communication and travel problems. Accordingly, we will adopt the company's request.

h. Cushion Gas

DRA recommended that the value of cushion gas currently maintained in SoCalGas' underground storage field at Honor Rancho be revalued to reflect current market prices. DRA subsequently withdrew its proposal. Accordingly, we will not address this issue.

2. Noninterest-Bearing CWIP

SoCalGas expects to be required to relocate pipelines, regulators, and main line valves in its South Inland Division to accommodate a major development in the fast growing Moreno Valley area. The DRA witness, however, recommended that the estimated capital spending of $7.099 million for this project be disallowed in the test year. The result of DRA's disallowance would not affect weighted average plant balances, but would have a $220,000 effect on noninterest-bearing CWIP. The exact nature of the planned development has not been finalized.

We note the company's testimony that it makes no difference whether an airport or a few thousand homes will be constructed in this area. The SoCalGas system will be affected the same way. Therefore, we believe that it is reasonable for the company to prepare its system for the development expected in this area. The company's request to have $220,000 in noninterest-bearing CWIP should be adopted.

3. Working Cash

The most controversial difference between the company and DRA regarding working cash relates to the one-day difference in calculating posting lag. This issue produces a difference of $5.960 million in rate base. Another difference is associated with miscellaneous work orders. This amounts to a $1.716 million variance in SoCalGas' operational cash requirement. There is also a $10.848 million difference related to the tax timing adjustment for California Corporate Franchise Tax (CCFT). However, this issue has since been resolved by the Commission in D.89-11-058. Remaining differences resulted from a different income tax expense estimate of $1.155 million, and a $1.563 million difference in estimates of expenses other than income taxes.

a. Posting Lag

The disagreement relates to the so-called "posting lag," the amount of time between when a meter is read and when the customer's account becomes an account receivable. SoCalGas estimates a posting lag of 2.87 days. DRA believes that only 1.87 days should be used. The rate base impact of this one-day difference is $5.960 million.

It should be noted that SoCalGas' actual posting lag estimate is two days, which increases to 2.87 days when weekends and holidays are included. Similarly, DRA's estimate of one day increases to 1.87 days when weekends and holidays are included.

DRA believes that SoCalGas' assumption in the "unbilled" lag of a two-day wait from a meter read to the posting of the read in the accounts receivable balances (which would make a particular read a "billed" revenue lag component) is faulty and results in double compensation to the utility. According to DRA, the problem in assuming a two-day wait is that after only one day a meter read is part of the recorded accounts receivable balancos used for the billed lag calculation. Therefore, DRA concludes that SoCalGas undeservedly wants working cash reimbursement for a phantom revenue lag day.

DRA states that its analysis uses a one-day posting lag as part of the unbilled lag. DRA takes into account the timing of the beginning and ending of the total revenue lag, as well as the interface between the billed and unbilled portions of the revenue lag, areas ignored by SoCalGas. The timing of the beginning and ending of the revenue lag, as well as the timing of the interface for both components of the revenue lag is 12 noon (as summarized in Exhibits 112 and 112A). The DRA method results in 39.93 revenue lag days, while SoCalGas has calculated 40.63 days, a difference of .71 days for a reduction in working cash requirement of around $6 million.

DRA notes that for most utilities a lag exists between the time of service and the posting of the dollar value of service rendered (the monthly bill) as an accounts receivable. Therefore, the revenue lag must be divided into two parts that are calculated differently. Billed lag covers the time a customer's bill is in the accounts receivable balances (that are summed to give "dollar-days") until the customer's payment is in the utility's bank account. It is calculated by summing the accounts receivable balances and dividing by total sales. The unbilled lag refers to the time when service is rendered to the customer until the customer's bill is part of the recorded accounts receivable balances. Once in these balances, the monthly bill is included in billed lag.

DRA contends that its approach is consistent with the standard practice. The Commission's Standard Practice U-16 addresses the calculation of revenue lag days when they must be broken into two parts: "If accounts receivable do not include unbilled sales, the revenue lag days are determined by dividing the total annual sales into the sum of: (1) <u>the unbilled sales, i.e., the product of customer sales by the period of time measured from the midpoint of service rendered to the date of billing</u>; and (2) the accumulation for the full year of each daily accounts receivable-billed customers which reflects the dollar days lag measured from the date of billing to date of payment. The quotient thus arrived at results in a composite revenue lag days." (U-16, emphasis added.)

DRA points out that the standard practice does not specifically outline the calculation of the unbilled lag. Although DRA believes that SoCalGas incorrectly claims support for its method that is simply not present in the standard practice. Any correctly done calculation must be sure that the billed lag and the unbilled lag are properly meshed together so that the utility is fairly compensated for its true revenue lag, no more and no less. If unbilled lag is too long, it will overlap with billed lag and the utility will receive double compensation. Therefore, a proper accounting of this unbilled lag is essential. The SoCalGas method improperly extends the unbilled lag into the billed lag, double-counting one-lag day to the company's benefit.

SoCalGas strongly disagrees. SoCalGas states the revenue lag calculation measures the time between the delivery of gas to a customer and SoCalGas' receipt of revenue from the customer. There are three components to the revenue lag: (1) the time from the midpoint of service to the time a customer's meter is read; (2) the time between when a customer's meter is read and when that meter read becomes a receivable; and (3) the time between when the account becomes a receivable and when payment is received.

In a typical 30-day month, the first component of the revenue lag is measured from the midpoint of service in a month until the meter is read, an average of 15.21 days. The second component of the revenue lag, or the posting lag, is measured by taking the time between when a customer's meter is read and the time when that meter read becomes a receivable. On a typical day meter reads are taken between 7:00 a.m. and 6:00 p.m. Not until the third day between approximately 7:00 a.m. and 10:00 a.m. are the meter reads recorded in the computer record after all balancing of accounts. Between 9:30 a.m. and 3:30 p.m. on the third day customer bills are actually placed in the mail.

SoCalGas has used 2.87 days for its estimate of the posting lag, which it believes to be a conservative estimate. SoCalGas asserts that the appropriate time to begin calculating the posting lag is midnight on the last day of the service period. This time is used so that one continuous period is accounted for. If one extends the first component of the revenue lag to the time of day when the meter is actually read, such extension would require an offsetting reduction to the second component of the revenue lag, the posting lag, with the resulting total revenue lag being the same. On the other hand, if the revenue lag calculation begins by taking the midpoint of the month, which is midnight on the 15th day, then the appropriate measurement for the first component of the revenue lag is from midnight on the 15th day of the month until midnight on the last day of the month.

SoCalGas argues that DRA's calculation of the posting lag is wrong in a number of respects because of significant erroneous assumptions. The DRA witness measured the posting lag from noon on the day after the meter is read to noon of the following day. DRA's use of noon on day one as the starting point is erroneous because it results in the deletion of 12 hours at the beginning of the posting lag period and deletion of an additional 12 hours from the end of the period, thus reducing the elapsed time during the posting lag period by one full day. Even if one were to use noon as the meter read time on day one, bills are not calculated and processed until between 7:00 a.m. and 10:00 a.m. on day three at the earliest. Indeed, the bills are not printed and placed into the mail until later than 10:00 a.m on day three. Thus, even using the DRA witness' meter read time of 12 noon, his calculation results in a 46-hour posting lag (i.e., from 12 noon on day one until 10:00 a.m. on day three). This is very close to SoCalGas' calculation, even though DRA's method ignores the 12-hour period between midnight at the end of the service period and DRA's estimate of when the meters are read.

SoCalGas notes that the Commission's Standard Practice U-16, pp. 3-11 specifically states that the unbilled lag is "the period of time measured from the midpoint of service rendered to the date of billing" and the billed lag is "the accumulation for the full year of each daily account receivable-billed customers which reflects the dollar days lag measured from the date of billing to date of payment." Although developed and published several years ago, these concepts remain valid today. SoCalGas' revenue lag of 40.63 days is calculated in accordance with Standard Practice U-16.

SoCalGas argues that there is conclusive proof in the record that the elapsed time from the reading of the customer's meter until the time when the related billing is recorded as a customer account receivable is a period well in excess of two days. One of the primary assumptions underlying the development of this posting lag is the concept that a day begins at midnight. This concept is crucial to this case inasmuch as the DRA witness has argued that "My days start at 12:00 noon, which is the proper time." DRA's use of the noon hour as the start of a day effectively eliminates 12 hours from the start of one period and 12 hours from the end of another period, thus reducing the elapsed time during the lag period by one full day.

There are two issues: First, when does the lag time begin on the meter read day? Second, when does a meter read get booked into accounts receivable?

With regard to commencement of the lag time, DRA uses 12 noon. DRA argues that SoCalGas wants to begin the posting lag at midnight because it claims that the service period, or entire unbilled lag, starts at midnight. For any customer, initial service does not begin at 12 midnight because gas is turned on during the day, with an average time of 12 noon. Furthermore, meter reads occur during the day, with an average time of 12 noon, so the posting lag should begin at 12 noon.

We note that SoCalGas' response to this argument is consistent with Standard Practice U-16, SoCalGas' method for estimating revenue lag takes the midpoint of service in a month as the beginning of its revenue lag calculation. The midpoint of service in a typical 30-day month is midnight on the 15th day, not 12 noon as alleged by DRA. Thus, the revenue lag calculation begins from the time of midnight at the midpoint of service and ends at that time when the customer actually provides payment to SoCalGas.

On the other hand, SoCalGas states that a meter read is recorded in accounts receivable between 7:00 a.m. and 10:00 a.m. on the third day and bills are placed in the mail on the third day.

In this regard we note SoCalGas' response to a data request which states:

> "When you examine this product you will find that the Accounts Receivable balance changes only once each day, and that the change first shows up on the 6:00 a.m. report. This is consistent with the information previously given to Ms. Jackson as Exhibit #75 (copy also attached). Specifically, the bills are calculated on the evening of Day 2, in preparation for the balancing and booking step that occurs on the morning of Day 3. The Accounts Receivable balance is necessarily updated in between these two steps so that it

> can be verified. For this reason, we see the balance changing daily in the 6:00 a.m. version of the requested reports. This balance is not considered 'final' until it is verified by the balancing and booking step that follows (between 7:00 a.m. and 10:00 a.m. on Day 3)." (Exhibit 162.)

Further, we note that DRA finds that this time window supports its analysis. But, since the time window covers days 2 and 3, we are not clear how it does support DRA's position.

Further, DRA contends that:

> "...the posting lag...occurs from 12 noon of the meter read day until 12 noon of a future day, when 'billed' lag beings. When a meter read is posted into the account receivable balance before the reading of that balance during any time from 12 noon to 12 noon, the read becomes part of the accounts receivable balance for that day. Once a read is part of the accounts receivable balance, the read is part of the 'billed' lag, and the utility is receiving compensation.
>
> "Contrary to SoCal's unsupported claims, DRA shows that the posting lag is one day, not two days, by properly considering the 12 noon interface between billed and unbilled lag." (DRA opening brief, p. 164.)

As we understand DRA's argument, a meter read becomes an account receivable on day 2, "since it is part of the recorded amounts." On the other hand, we note that the company contends that the final booking step occurs on day 3, and that is when a reading becomes an account receivable.

In summary, we conclude that DRA may have a valid argument, but given the record in this proceeding, it is not sufficiently developed for us to adopt DRA's position. Particularly with regard to working cash, all utilities are required to follow exactly the Commission prescribed form of calculation that has evolved over many years. However, with the advent of computerized accounting systems, there may be room for some changes. Since, SoCalGas has followed the standard procedure for working cash calculations, the company's estimate of a posting lag of 2.87 days should be adopted.

b. Tax Timing Difference for CCFT

There is a $10.848 million difference in working cash requirements resulting from the inclusion by SoCalGas of the tax timing adjustment for the payment of CCFT. This issue was recently decided by the Commission in D.89-11-058. According to that decision, SoCalGas' requested amount of $10.848 million should be disallowed when calculating the tax expense in this proceeding.

The revenue requirement adopted in this decision does not reflect D.89-11-058 related to the change to flow-through for the CCFT deduction in estimating ratemaking federal income tax expense. Therefore, no later than October 1, 1990 SoCalGas shall file an advice letter to true-up test year 1990 ratemaking federal income tax expense. The resulting difference in revenue requirement shall be included in SoCalGas' 1991 attrition increase.

c. Miscellaneous Work Orders

There is a difference of $1.716 million related to this item. DRA argues that this amount relates to work orders in progress that are cleared to expenses for which the utility is already compensated. SoCalGas is relitigating an issue that was settled in the 1985 rate case, D.84-12-069. The company's request should be denied.

d. Depreciation Reserve

The $18.631 million difference in weighted average depreciation reserve shown in the comparison exhibit is due to removal of the Flower Street Headquarters depreciation reserve as proposed by DRA, the revision of the depreciation reserve balance to reflect recorded December 31, 1988 plant and reserve balances, and other DRA adjustments to plant. In excluding the Flower Street Headquarters, DRA changed the remaining life assumption for Account

390, General Plant-Structures and Improvements. SoCalGas disagrees with this change.

As noted previously, we will establish a memorandum account to address all ratemaking adjustments resulting from the Headquarters phase of this proceeding.

With regard to the DuPont settlement, DRA has increased the depreciation reserve by $2.700 million to reflect inclusion of the DuPont settlement, an adjustment SoCalGas opposes. As discussed previously, we will credit depreciation reserve with the $1.2 million amount that SoCalGas received in settlement.

E. Capital Expenditure for Attrition Year

DRA recommends a five-year fixed historical average of capital expenditure be adopted. This would cause the level of expenditure in the attrition years to be less than SoCalGas' request for the test year.

SoCalGas argues that adoption of DRA's proposed five-year historical average for determining capital expenditures would not allow SoCalGas to complete many of the multi-year capital projects recommended by both SoCalGas and DRA in this proceeding. In fact, it would cause authorized capital expenditures for 1991 to be $49 million less than the amount of SoCalGas has requested in the test year.

We are not persuaded that the level of capital expenditure adopted for the test year should be reduced in the attrition years. As discussed previously, SoCalGas' capital expenditures were constrained by the settlement adopted in the 1988 rate case. Since SoCalGas must make capital expenditures to meet the demands of its customers in a fast growing service area, we will adopt the company's proposal which is to continue the same level of expenditure in the attrition years as was authorized for the test year.

V. Audit Report

A. Conservation

DRA's auditor recommended a disallowance of $233,000 (i.e., one-third of $699,000) based upon its disagreement with the company regarding the detrimental impact of the rate change resulting from the Tax Reform Act of 1986. The appropriate treatment of this impact was addressed previously in the discussion of taxes. Since the benefits are flowed-through to the ratepayers, they should accept the detriments. The disallowance was not adopted.

B. Gain On Sale Of Property

DRA proposed that $4.318 million of gain on the sale of real property from 1985 through 1988 be flowed-through to ratepayers over the three-year case cycle. DRA's witness also recommend that a forecast annual amount of $1.154 million be used as an estimate for gain on sale of real property to be credited to miscellaneous revenues.

The issue of the appropriate ratemaking treatment of the gain on sale of real property is presently pending before the Commission in SoCalGas' Headquarters application, A.87-07-041. The gain on sale issue in this proceeding is substantially identical to the same issue presently pending in the other case. SoCalGas therefore recommends that DRA's proposal be deferred pending the Commission's decision in A.87-07-041.

We note that DRA and SoCalGas agree that after reviewing that decision, if either DRA or SoCalGas believes that the gain on sale issue in this case can be distinguished, either party should have the opportunity to request that the gain on the sale of real property from 1985 onwards be considered in SoCalGas' next general rate case proceeding. We agree. The proposed $1.154 million adjustment will be considered in the next general rate case.

VI. Rate of Return

The Commission reviewed the 1990 cost of capital for SoCalGas in A.89-05-011. In that proceeding, SoCalGas was authorized an overall rate of return of 10.75% based on a return on common equity of 13.0% for test year 1990 (D.89-11-068). The adopted revenue requirement in this proceeding should reflect the 10.75% rate of return.

VII. Rate Design

A decision in SoCalGas' March 1989 ACAP application, A.89-04-021, will be issued concurrently with the Commission's decision in this general rate case. The revenue requirement granted in this decision will be incorporated in the cost allocation and rate design adopted by the Commission in its decision in A.89-04-021 which is to be issued concurrently with this decision.

VIII. Update Hearing

The update hearing provides an opportunity for the Commission to receive into evidence the latest inflation indexes for labor and non-labor. Also, there is a limited opportunity for the utility to request reasonable expenses for new governmental programs required by law that the company did not have the opportunity to include in its test year estimate.

A. Escalation Rate

The updated escalation rates are set forth in this decision.

B. Federal Drug-free Workplace Act of 1988

The basis for SoCalGas's request is set forth in Exhibit 203. DRA takes no exception to SoCalGas' estimate to implement these new federal standards. We will adopt SoCalGas' estimate of $927,000.

C. 1990 Premium Tax Expense

SoCalGas states that the California State Board of Equalization (SBE) issued a Notice of Redetermination dated February 17, 1989, which is the final administrative decision in a chronology of events dating back to 1979. At that time SBE began asserting that, under various contractual relationships, medical claim payments made by an employer constitute a "premium" to the insurer, such that a gross premium tax is applicable to the employer medical claim payments. SoCalGas is self-insured; Lincoln National (Lincoln) provides administrative services. SoCalGas also purchases excess insurance coverage designed to provide an aggregate catastrophic loss safety net. While the tax is assessed on the insurer Lincoln, as a condition of the contract effective July 1, 1980 and thereafter, it was necessary for SoCalGas to indemnify Lincoln against the possible assessment of the premium tax on SoCalGas medical claims.

Imposition of the tax has been delayed by litigation reaching the California Supreme Court on the application of the tax in California, and by litigation reaching the U.S. Supreme Court on the issue of federal preemption by the Employee Retirement Income Security Act. Following the U.S. Supreme Court denial of certiorari in March 1988, effectively permitting states to apply the tax, the California SBE held a hearing in May 1988 on the SoCalGas/Lincoln Petition for Redetermination concerning the specific facts in its contractual relationship. On February 17, 1989, the SBE issued an unfavorable Notice of Redetermination assessing the tax against SoCalGas/Lincoln. Prior to that time SoCalGas was expecting a favorable decision from SBE that the tax would not be imposed.

SoCalGas states that its request does not include any penalties or assessments for the years 1980 through 1989. It requests only the 1990 premium tax which is estimated at $640,000 (in 1990 dollars).

DRA argues that there is no reason for SoCalGas to raise this issue at the last minute. SoCalGas knew of this issue and of the amounts involved as early as July 1, 1980 and was billed for 1980 through 1985 taxes and interest penalties on March 13, 1989. Also, according to DRA, Lincoln is one of the unique insurance companies being assessed the California Insurance Premium Tax because it sells life and accident insurance, in addition to medical insurance, for profit. Given the number of health care providers which are not required to pay this excise tax (e.g., Kaiser, Blue Cross, Blue Shield, preferred provider networks, etc.), it is reasonable to assume that SoCalGas can avoid this tax by restructuring its indemnity coverage.

SoCalGas argues that DRA is wrong when it asserts that SoCalGas waited over one year after litigation to bring the subject to the attention of the Commission. The federal litigation disposed of the federal issues. The issue with SBE was whether the premium tax was applicable under the specific contractual relationship between Lincoln and SoCalGas. SBE's decision was issued on February 17, 1989.

Further, SoCalGas states that Lincoln is not unique, the SBE is assessing the premium tax against other insurance companies providing claims administration services to self-insured employers in California like SoCalGas.

Lastly, SoCalGas notes that as a major cost-containment action it moved from an insured plan to a self-insured plan as of July 1, 1980. Work papers submitted to DRA show that since the last general rate case in 1985, the savings was over $14 million.

We note that the SBE issued its ruling on February 17, 1989. That was the point in time when all legal processes had been exhausted and SoCalGas/Lincoln become obligated for the tax payments. At this point in time it was too late for SoCalGas to include the premium tax in its general rate case request. Further, SoCalGas has flowed-through $14 million in productivity savings because of its self-funded, self-insured medical plan. It is reasonable that it be compensated for the premium tax for 1990 onwards. Therefore, based on the current premium tax rate of 2.35%, we will adopt SoCalGas' estimate of $640,000 (in 1990 dollars).

Lastly, we note DRA's argument that Lincoln is one of the unique insurance companies being assessed the California Insurance Premium Tax because it sells life and accident insurance. We expect SoCalGas to review all alternatives.

D. <u>Implementation of New Legislation</u>

SoCalGas requests:

AB 1823 - Additional Baseline Allowance for Scleroderma Patients	$ 46,204
AB 1890 - Water Heater Strapping	$128,153
SB 101 - Four Hour Service Window	$164,988
	$339,345

DRA believes that these programs can be handled within the context of existing funding. Since much of the funding requested relates to mailing of notices to the customers, DRA believes that much of this information can be combined with existing mailings, and there need not be special mailings. With regard to the water heater strapping program, the deadline for implementation is July 1, 1991. DRA contends that there is no need to rush into the program before the state architect issues standards.

SoCalGas points out that 50% of its customer base is non-English speaking, and the mailings must be done in four different languages. For example, SB 101 requires the company to notify its customers three times a year. With regard to the water heater strapping program, SoCalGas agrees that the program does not have to start until 1991. However, since this is a safety-related program SoCalGas contends that it should commence immediately.

We agree with DRA to the extent that some portion of these new programs can be handled within the context of funding for existing programs. Therefore, we will reduce SoCalGas' request by 50%. The adopted amount is $169,673.

E. Management Audit

SoCalGas agreed to pay the accounting firm of Touche Ross $143,303 for services provided at the request of CACD. DRA agrees that SoCalGas should recover this amount. We agree that the company should recover the full amount in 1990 and remove this amount from base rates when it makes its 1991 and 1992 attrition filings.

IX. Summary of Earnings

The Summary of Earnings attached as Appendix C reflects the ratemaking adjustments adopted in this opinion. The total annualized revenue increase adopted for test year 1990, based on an overall rate-or-return of 10.75% (D.89-11-068) is $110.3 million or 3.4%.

Findings of Fact

1. On December 27, 1988, SoCalGas filed A.88-12-047 to increase gross revenues from base rates in 1990 by $153.7 million or 4.8% annually over estimated 1989 authorized rates. Present rates are insufficient for SoCalGas to earn its authorized rate of return.

2. SoCalGas has not fully explained the need for overtime to fill CNG cylinders.

3. SoCalGas failed to explain its productivity adjustment in its transmission and storage expense workpapers.

4. The gas losses associated with blowdowns should not be included in the memorandum account as they have already been included in SoCalGas' 1989 ACAP.

5. Pursuant to the procedure established in D.82-12-054 for recovery of recorded migration gas losses, SoCalGas has not been compensated for these losses for 1986 onwards.

6. SoCalGas has not justified its request for an additional $50,000 for its Transmission Department related to human resources activities.

7. SoCalGas has not shown that there is an immediate prospect of negotiating a lease for the ARCO pipeline.

8. It is not possible to fairly estimate environmental fees for 1990.

9. DRA's selective trending method for estimating distribution expense does not yield a result which adequately represents current levels of expenditure and does not recognize the need for increased maintenance. DRA's estimate for 1990 is less than 1988 recorded expenses. SoCalGas' estimate is more reasonable because it better reflects current needs.

10. SoCalGas allowed its leak backlog to increase.

11. SoCalGas has failed to adequately explain its request for additional planners.

12. DRA's estimate for meter and house regulator expenses does not make adequate allowance for new programs.

13. For Other Expenses, SoCalGas' estimate better reflects the increased activities expected in these accounts, and this factor is not adequately captured in DRA's selective trend estimate.

14. For maintenance of mains and services expense, DRA's selective trending approach does not adequately reflect current levels of activity. SoCalGas' estimate is more reasonable since it reflects expected activity level.

15. SoCalGas received $1.2 million from DuPont in settlement of a claim related to defective pipe.

16. SoCalGas has not made satisfactory progress in resolving its PCB arbitration. There is need for SoCalGas to settle this matter expeditiously.

17. The adopted level of expenditure for conservation programs is nearly 40% over the level of the average recorded expenditure for the last three years.

18. While a number of DRA's FEIP may be too inflexible to adopt at this time, several of the FEIP are appropriate given our interest in reinvigorating the DSM efforts of California's electric and natural gas utilities.

19. The primary purpose of the Museum of Science and Industry exhibit is to enhance the corporate image.

20. The Direct Assistance Program provides a variety of programs for low income, elderly, and disabled customers aimed at reducing their energy bills. The program cost is $20.5 million.

21. The underspent conservation funds for the period 1985 through 1988 amount to $6.268 million.

22. SoCalGas has not justified the need for additional positions in its Regulatory Affairs Department.

23. SoCalGas' request for additional employees in its Gas Supply Department, given the increased complexity of SoCalGas' transportation and banking program, is reasonable.

24. SoCalGas has met its short term 1988 goal for WBEs of 4.21% by achieving a reported 5.37% participation; but it did not meet its short term 1988 goal for MBEs of 5.89%, because it achieved only 5.37% participation from MBEs.

25. SoCalGas' procurement with minority women owned businesses in 1988 was low.

26. The parties agree that SoCalGas should recover actual WMBE Clearinghouse costs in the test year and attrition years.

27. For A&G Account 923, SoCalGas has failed to sufficiently justify its three-factor allocation.

28. In A&G Account 923, the rates for legal expenses estimated for PE compare favorably with the rates allowed by this Commission.

29. DRA's estimate of A&G Account 923 for test year and attrition year expenses includes a customer growth cap. SoCalGas' estimate does not.

30. DRA's estimate for Account 925 - Injuries and Damages excludes certain cases due to the attorney-client issue. The adjustment related to these cases is $237,421.

31. DRA's estimate for Account 925 is based on a 5-year base as used in past proceedings. There is no compelling reason to change to a 4-year base as requested by SoCalGas.

32. DRA's estimate of pension cost does not adequately compensate for reduced long-term returns from pension fund investments. However, SoCalGas' estimate is high in the aggregate.

33. Workers' compensation expenses are not standard operating expenses and should not be subject to standard non-labor escalation.

34. SoCalGas is already funding a 401(h) account, which is included in its pension fund.

35. Employee benefits are not charitable contributions prohibited for funding by the California Supreme Court. These items are a employee benefit.

36. There may be an increased need for RD&D funding for programs directed towards reducing pollution emissions and towards developing new conservation technologies. This increased need is associated with the SCAQMD's recent air quality plan and with President Bush's proposed environmental initiatives, among other things. SoCalGas should be authorized to seek additional RD&D funding for environmental and conservation programs in a separate phase of this proceeding.

37. The RD&D budget of $8.656 million for test year 1990 is reasonable.

38. SoCalGas' costs for meals and entertainment exceed the costs incurred by other utilities.

39. The Open Account Maintenance Fee cost will be the same if the company uses an outside lending institution.

40. SoCalGas' estimate for AGA expense reflects an adjustment for lobbying expense that is consistent with PG&E's general rate case decision, D.89-12-057.

41. DRA proposed a 2.28% labor cost expense adjustment because SoCalGas' wages and salaries are allegedly over market rates.

42. DRA's proposed rate base reductions of $49.2 million, $12.3 million and $3.446 million are rejected.

43. SoCalGas' estimates of $750,000 for asbestos removal and $100,000 for remodeling costs may be deferred to after 1990.

44. Because of overcrowding and the need to locate certain departments in the same area, SoCalGas needs a new building to house a combined engineering lab and training center. The estimated cost of the building is $4.0 million.

45. SoCalGas needs to relocate its pipelines and valves in the Moreno Valley in anticipation of expected growth in the area.

46. SoCalGas's estimate of working cash does not reflect the Commission's recent decision (D.89-11-058) on tax timing difference.

47. The revenue requirement adopted in this decision does not reflect D.89-11-058 related to the change to flow-through for the CCFT deduction in estimating ratemaking federal income tax expense.

48. There is a need for a memorandum account to accumulate ratemaking data related to keeping the undepreciated book value of the Flower Street headquarters in rate base since the date of the sale of the headquarters pending a decision in A.87-07-041. This memorandum account is to be maintained separate from and in

addition to the memorandum account required by Interim D.87-09-076 in A.87-07-041.

49. There is a need for SoCalGas' capital expenditure levels during the attrition years to remain at the same level as for the test year.

50. The CCA balancing account has outlived its usefulness.

51. Commencing on January 1, 1990, there is a need for a memorandum account to record expenditures for conservation, demand-side management and marketing expense programs, so that unspent funds can be returned to the ratepayers.

52. SoCalGas' rate of return for 1990 was determined in D.89-11-068.

53. SoCalGas' rate design for 1990 was determined in its ACAP proceeding (A.89-04-021) which was heard concurrently with this proceeding.

54. There is no disagreement between SoCalGas and DRA regarding the Federal Drug-free Workplace Act program budget of $927,000. The requested funding level is reasonable.

55. SoCalGas' self-insured health plan administered by Lincoln is cost effective, and SoCalGas is required to compensate Lincoln for the California Insurance Premium Tax. The Premium Tax is an appropriate ratemaking expense.

56. For the implementation of programs required by new legislation, some portion of the cost can be handled within the context of funding for existing programs.

<u>Conclusions of Law</u>

1. Since SoCalGas' base rates currently in effect are insufficient for it to earn its authorized rate of return in test year 1990, SoCalGas should be allowed to file new rates to recover the additional revenue requirement found reasonable herein.

2. SoCalGas should be authorized to charge a Reconnection Fee of $16.00 and a Service Establishment Fee of $5.00, since this

will shift most of the burden of the expense to the user of the service.

3. Since SoCalGas has not fully explained the need for overtime to fill CNG cylinders, its request for additional funding to cover overtime should be denied.

4. SoCalGas' failure to explain its transmission and storage expense workpapers amounts to failure of its burden of proof. Therefore, the DRA adjustments to reflect productivity in the test year should be adopted.

5. Effective January 1, 1990, gas inventory losses resulting from migration, well leakage, and surface leakage at storage fields should be accrued in a Gas Loss Memorandum Account pending transfer to SoCalGas' next ACAP.

6. Since SoCalGas has not been compensated for migratory losses for 1986 onwards, SoCalGas may include these costs in the Gas Loss Memorandum Account for future recovery in its ACAP, according to the procedure set forth in this decision.

7. Since SoCalGas has not justified its request for an additional $50,000 for its Transmission Department related to human resources activities, the request should be denied.

8. Since there is no immediate prospect of SoCalGas negotiating a lease for the ARCO pipeline, the company's funding request should be denied.

9. Since it is not possible to fairly estimate environmental fees, it is reasonable to adopt DRA's estimate and provide for a non-interest bearing memorandum account so that the difference between recorded and adopted expense can be amortized in SoCalGas' next general rate case.

10. Since SoCalGas' estimate for distribution expense better reflects current needs, it should be adopted.

11. SoCalGas' request for deferred maintenance expense should be denied because the prior leak backlog was allowed to increase.

12. DRA's estimated allowance for additional planners should be adopted because SoCalGas has failed to adequately explain its request.

13. SoCalGas' estimate for meter and house regulator expenses should be adopted since it better makes allowance for new programs.

14. For Other Expenses, SoCalGas' estimate better reflects the increased activities expected in these accounts and this factor is not adequately captured in DRA's selective trend estimate, SoCalGas' estimate should be adopted.

15. For maintenance of mains and services expense, SoCalGas' estimate is more reasonable since it reflects expected activity level, and it should be adopted.

16. The $1.2 million received by SoCalGas from the DuPont settlement should be credited to depreciation reserve net of income taxes so that the ratepayers receive a more direct benefit in the form of a rate base reduction because they are being charged the investment cost of pipe with a normal life expectancy and repair cost. The net of tax amount is $679,000.

17. Commencing January 1, 1990, SoCalGas should receive no ratemaking expense related to PCB costs. SoCalGas should charge all PCB expense to a non-interest bearing memorandum account for which SoCalGas may receive recovery after arbitration is concluded, and the costs are subjected to a reasonableness review.

18. The adopted level of expenditure for conservation programs, which exceeds by nearly 40% the level of recorded expenditure for the last three years, reflects the Commission's continued commitment to these programs, and these estimates should be adopted.

19. Energy efficiency incentive programs and load management programs are the appropriate portions of DSM that are intended to serve as alternatives to supply-side programs. We adopt tenet III.A of DRA's FEIP proposals, as stated in Appendix A of Exhibit 58.

20. Under present circumstances it is reasonable to pay most attention to the TRC test, and we adopt tenets III.E, III.F, and III.G of DRA's FEIP proposals, as stated in Appendix A of Exhibit 58.

21. SoCalGas should not be compensated for its Museum of Science and Industry exhibit, since the primary purpose of the exhibit is to enhance to the corporate image.

22. The Direct Assistance Program cost of $20.5 million is reasonable and should be adopted.

23. The underspent conservation funds for the period 1985 through 1988 amounting to $6.268 million should be reduced by $2.1 million to fund the fuel cell program, and the balance of $4.168 million should be amortized over a 3-year period beginning in the 1990 test year. The refund amount should be reduced by $233,000 each year to reflect the changes in tax rates due to the Tax Reform Act.

24. Since SoCalGas has not justified the need for additional positions in its Regulatory Affairs Department, the company's request should be denied.

25. SoCalGas' request for additional employees in its Gas Supply Department is reasonable and should be adopted.

26. In light of the fact that the company fell short of its 1988 MBE goal, SoCalGas should focus its outreach program to enhance the participation of MBE and thus endeavor to meet the MBE goal it shall set for 1989.

27. Because the company's statistics are low in the area of procurement expenditures with minority women owned business enterprises, SoCalGas should set goals in accordance with D.89-08-041 for minority women owned business enterprises as a means to increase the participation of such businesses.

28. SoCalGas should recover actual WMBE Clearinghouse costs in the test year and attrition years.

29. For A&G Account 923, SoCalGas has failed to sufficiently justify its three-factor allocation. Therefore, SoCalGas' funding request should be reduced.

30. In A&G Account 923, the rates for legal expenses estimated for PE compare favorably with the rates allowed by this Commission. SoCalGas' estimate for PE legal services is reasonable and should be adopted.

31. For purposes of this proceeding, DRA's estimate of A&G Account 923 for test year 1990 and attrition year 1991 expenses, which includes a customer growth cap, is reasonable, with the addition of $561,000 for miscellaneous items. However, SoCalGas should receive an increase in its 1992 attrition year filing to reflect the difference in the PE rental rate for 1992. The reasonableness of the PE rental rate shall be determined in the new headquarters phase of this proceeding. The total for Account 923 in the 1992 attrition filing should not exceed the amount requested by SoCalGas for this account in test year 1990 plus inflation.

32. DRA's estimate for Account 925 - Injuries and Damages excludes certain cases (McConkey, Davis, and Harrison) due to the attorney-client issue. The adjustment related to these cases is $237,421. SoCalGas should be allowed to recover this amount in a subsequent rate case after the attorney-client issue is resolved, and the complete files on these cases have been reviewed by DRA for reasonableness.

33. DRA's estimate for Account 925 which is based on a 5-year base as used in past proceedings is more reasonable and should be adopted.

34. SoCalGas' estimate for pension expenses is high in the aggregate and should be reduced by 10%. With this reduction SoCalGas' estimate should be adopted.

35. Since SoCalGas is already funding a 401(h) account, it is reasonable to continue to fund this account pending a final determination by the Commission in an OII to be issued later.

36. Since employee benefits are not charitable contributions, SoCalGas' estimate should be adopted.

37. The RD&D budget of $8.656 million for test year 1990 is reasonable.

38. Since SoCalGas' costs for meals and entertainment exceed the costs incurred by other utilities, DRA's estimate should be adopted.

39. There is no reason to adopt DRA's adjustment for the Open Account Maintenance Fee, since the cost will be the same if the company uses an outside lending institution.

40. SoCalGas' estimate for AGA expense reflects an appropriate adjustment for advertising and lobbying expenses which is reasonable. SoCalGas' estimate should be adopted.

41. DRA's proposed 2.28% labor cost expense adjustment should not be adopted because, given the practical limitations of the accuracy of such surveys, SoCalGas' wages and salaries are not clearly unreasonable.

42. DRA's proposed rate base reductions of $49.2 million, $12.3 million, and $3.446 million are rejected. DRA's proposed adjustments should not be adopted.

43. Since SoCalGas' estimates of $750,000 for asbestos removal and $100,000 for remodeling costs may be deferred to after 1990, these amounts should be excluded from the test year estimate.

44. Since SoCalGas needs a building to house a combined engineering lab and training center, the estimated cost of $4.0 million should be adopted.

45. SoCalGas' estimate to relocate its pipelines and valves in the Moreno Valley in anticipation of expected growth in the area should be adopted.

46. SoCalGas's estimate of working cash should be adjusted to reflect the Commission's recent decision (D.89-11-058) on tax timing difference.

47. A memorandum account, commencing January 1, 1990, should be established to reflect the ratemaking adjustments discussed herein related to SoCalGas' move to its new headquarters building in mid-1991.

48. Capital expenditure levels during the attrition years should remain at the same level as for the test year.

49. The CCA balancing account should be terminated on December 31, 1989. The reasonableness of these expenditures will be reviewed in SoCalGas' next CCA application to be filed in March 1990. SoCalGas should propose a plan to refund to the ratepayers the overcollection in the CCA balancing account.

50. Effective January 1, 1990, all conservation, demand-side management and marketing expenses, including expenses previously charged to the CCA balancing account, should be entered in a one-way interest bearing memorandum account. All unexpended funds should be returned to the ratepayers in the next general rate case cycle. SoCalGas should not be compensated for any overexpenditures.

51. SoCalGas' filed rates for 1990 should reflect the 10.75% rate of return adopted by the Commission in D.89-11-068.

52. SoCalGas' filed rates for 1990 should reflect the rate design adopted by the Commission in SoCalGas' ACAP proceeding A.89-04-021.

53. SoCalGas' estimate for the Federal Drug-free Workplace Act program of $927,000 should be adopted.

54. Commencing in 1990, SoCalGas should be compensated for the California Insurance Premium Tax incurred on its health plan.

55. SoCalGas' request for implementing programs required by new legislation should be reduced by 50% since that portion of the cost should be handled within the context of existing programs.

INTERIM ORDER

IT IS ORDERED that:

1. Southern California Gas Company (SoCalGas) is authorized to file revised tariff schedules for test year 1990 to increase annual revenues by $121.362 million, based on the Summary of Earnings attached as Appendix C to this decision.

2. The revised tariff schedules shall be filed on or after the effective date of this order and at least three days prior to their effective date.

3. The revised tariff schedules shall comply with General Order 96-A and shall apply to service rendered on or after their effective date.

4. SoCalGas is authorized to charge a Reconnection Fee of $16.00 and a Service Establishment Fee of $5.00.

5. The revised tariff schedules shall reflect the rate of return adopted by the Commission in A.89-05-011 and the rate design adopted by the Commission in SoCalGas' annual cost allocation proceeding A.89-04-021.

6. SoCalGas' Conservation Cost Adjustment Account shall be terminated on December 31, 1989.

7. The agreement between SoCalGas, the Division of Ratepayer Advocates, and California-Nevada Community Action Association on the Direct Assistance Program, which includes program costs of $20.546 million, is adopted.

8. All transcript corrections received are incorporated in the record.

9. All motions not specifically ruled upon are denied.

10. Commencing January 1, 1990, SoCalGas shall transfer its polychlorinated biphenyls (PCB) clean-up program to its hazardous waste proceeding for review and future rate recovery.

11. SoCalGas shall establish memorandum accounts for environmental fees, PCB expense, new headquarters building,

conservation expenses, and gas losses, as set forth in this opinion.

12. As part of its next general rate case filing, SoCalGas shall provide the additional reports requested by DRA on its Research, Development, and Demonstration (RD&D) Program.

13. SoCalGas shall submit additional testimony on proposed RD&D projects related to increasing environmental quality and conservation efforts. This testimony shall be served on all parties no later than March 30, 1990. All parties shall have the opportunity to submit testimony. Evidentiary hearings shall be scheduled thereafter in a separate phase of this proceeding.

14. SoCalGas is authorized to file for attrition rate adjustments effective January 1, 1991 and January 1, 1992, under the attrition rate adjustment mechanism adopted in D.85-12-076, and as set forth in the schedules attached as Appendix D.

15. The revenue requirement adopted in this decision does not reflect D.89-11-058 related to the change to flow-through for the CCFT deduction in estimating ratemaking federal income tax expense. Therefore, no later that October 1, 1990, SoCalGas shall file an advice letter to true-up test year 1990 ratemaking federal income tax expense. The resulting difference in revenue requirement shall be included in SoCalGas' 1991 attrition increase.

16. This proceeding shall remain open for disposition of other matters pending before the Commission.

This order is effective today.

Dated JAN 9 1990, at San Francisco, California.

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

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

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

Wesley Franklin

WESLEY FRANKLIN, Acting Executive Director

DB

APPENDIX A
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List of Appearances

Applicant: Robert B. Keeler, Peter N. Osborn, Jordana Singer and David B. Follett, Attorneys at Law, for Southern California Gas Company.

Interested Parties: W. E. Cameron, for City of Glendale; Law Offices of Dian M. Grueneich, by Barry H. Epstein, Attorney at Law, for California Institute for Energy Efficiency; Leslie J. Girard, Attorney at Law, for City of San Diego; Messrs. Biddle & Hamilton, by Richard L. Hamilton, Attorney at Law, for Western Mobile Home Association; Richard K. Durant, Carol B. Henningson, James M. Lehrer and Frank McNulty, Attorneys at Law, for Southern California Edison Company; James Hodges and William B. Marcus, for California/Nevada Community Action Association, The East Los Angeles Community Union, and Association of Southern California Energy Programs; Roger J. Peters and Kermit R. Kubitz, Attorneys at Law, for Pacific Gas and Electric Company; Messrs. Graham & James, by Martin A. Mattes, Attorney at Law, for Trigen Resources, Inc.; Leamon W. Murphy, for Imperial Irrigation District; Messrs. Jones, Day, Reavis, & Pogue, by Norman A. Pedersen, for Southern California Utility Power Pool; Robert L. Pettinato, for Los Angeles Department of Water & Power; David Plumb, for City of Pasadena; Patrick Power, Attorney at Law, for City of Long Beach; Michel Peter Florio and Joel Singer, Attorneys at Law, and Audrie Krause, for Toward Utility Rate Normalization; Richard A. Shaw, for ASCEP/ASSERT; Shelley I. Smith, Assistant City Attorney, for City of Los Angeles; Ronald V. Stassi, for City of Burbank; Robert Weisenmiller, for Morse Richard Weisenmiller & Associates; Barton M. Myerson, Attorney at Law, and Bruce J. Williams, for San Diego Gas & Electric Company; Randolph Wu, Richard Owen Baish, Michael D. Ferguson, Attorneys at Law, and Phyllis Huckabee for El Paso Natural Gas Company; Dorothy Taylor, Public Advisor's Office; Thomas J. O'Rourke, for Southwest Gas Corporation; Steve Harris, for Enron/Transwestern Pipeline Company; Ronald G. Oechsler, for Recon Research Corporation; Caryn Hough, Attorney at Law, and Susan Bakker, for California Energy Commission; Robert J. Hohne, for Robert J. Hohne Associates; Jane Brunner, Attorney at Law, and Tom Dalzell, for Utility Workers Union Local 132 and Coalition of California Utility Workers; Matthew V. Brady, Attorney at Law, for Department of General Services; Andrew J. Skaff and Edward Poole, Attorneys at Law, for Skaff & Anderson; Nancy Thompson, for Barakat, Howard & Chamberlin; James D. Squeri, Attorney at Law, for Armour, St. John, Wilcox, Goodin & Schlotz;

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and J. Patrick Costello, Edward Duncan, Manuel Kroman, and John Mosely, for themselves.

Division of Ratepayer Advocates: Philip Scott Weismehl, Izetta C. R. Jackson, Patrick L. Gileau, Irene K. Mooson, and Ida Passamonti, Attorneys at Law and Greg Wilson, Maurice Monson and Mark Bumgardner.

(END OF APPENDIX A)

SOUTHERN CALIFORNIA GAS COMPANY
DIRECT ASSISTANCE PROGRAM

SoCalGas and the Agencies agree with the recommendations of the Division of Ratepayer Advocates on the Direct Assistance programs, which states, "The primary purpose of direct assistance is to provide meaningful assistance to low income and other disadvantaged customers in lowering their utility bill (and) reducing energy consumption . . . Direct assistance should be provided in the form of installation, at little or no cost to the low income participant, of conservation materials or energy efficient appliances which reduce the energy use, and bills, of the participant. Assistance should also include recommendations to the occupant on relevant practices which can further reduce the customer's bills."

Consistent with DRA's guidelines, the objective of SoCalGas' Direct Assistance Program is to offer low income, elderly, and disabled customers a variety of services aimed at reducing their energy usage and their energy bills. The following menu of services will be provided at no cost to eligible customers:

- Home Energy Survey
- Energy Education
- Installation of Weatherization Measures/Building Envelope Repair
- Appliance Adjustment/Repair/Replacement
- Referral to Low Income Baseline Rate Assistance/Level Pay Programs, and DEO Programs.

Direct Assistance service providers will be selected to cover specified geographic areas in SoCalGas' service territory. Each service provider would then perform any or all of the services for which it is qualified, or it may subcontract any of the services to qualified contractors.

It is SoCalGas' intent in pursuing a new program design to involve the Agencies with programs that will assist them in making the transition from weatherization into activities on which to build a broader service base. By providing new and challenging program opportunities, agency contractors have the chance to develop marketing strategies and business, planning, and management techniques to take them beyond the limited range of utility-funded programs, while still providing meaningful assistance to low income ratepayers. At the same time, it will enable SoCalGas to assume an aggressive posture in soliciting program participation and fulfill its objective to contact and involve as many eligible low-income customers as possible. At the vanguard of this effort will be the SoCalGas Community Energy Efficiency Training Center which will provide instruction in the following areas:

- Program Management and Capability Building
- Outreach and Marketing
- Home Energy Survey
- Energy Education
- Installation of Measures
- Gas Appliance Inspection/Adjustment/Repair/Replacement
- Program Referrals

SoCalGas will strive to enhance communication between Direct Assistance service providers and the Company, to ensure timely inspections, and to maintain an ongoing effort to see that service providers are ready and able to make timely, efficient adjustments as the Direct Assistance Program evolves.

SoCalGas will work with the Agencies to develop the goals, budgets, design, and procedures of the individual program elements of the Direct Assistance Program outlined in this document. This "Direct Assistance Program" committee is described in Attachment B.

PROGRAM OVERVIEW

I. PROGRAM SERVICES

All eligible customers will receive a Home Energy Survey, Energy Education, and appropriate referrals. In order to minimize the number of visits necessary to serve each eligible household, the program will strive to install as many measures as feasible on the first visit. Measures eligible for installation will be determined by the Home Energy Survey. There will not be a minimum number of measures installed in the dwelling in order for the customer to be eligible for direct weatherization or other program services.

II. CUSTOMER ELIGIBILITY

SoCalGas will strive to utilize demographic data to designate areas and communities as "eligible low income" areas rather than individual income certification.

III. DIRECT ASSISTANCE PROGRAM MARKETING/OUTREACH

SoCalGas will assist in the marketing of Direct Assistance Programs by running newspaper, radio, and television ads describing the availability of program services. In addition, SoCalGas representatives will be assigned to work with individual agencies and assist them in program advertising, lead development and outreach efforts in their assigned areas.

SoCalGas will assist agencies in the formulation and use of demographic data to target low income communities for Direct Assistance services.

IV. HOME ENERGY SURVEY/ENERGY EDUCATION

Conducted at the time of the outreach and assessment, each eligible customer will be offered the Home Energy Survey and Energy Education. The Home Energy Survey will consist of the identification of needed weatherization measures/building envelope repair and an inspection of all gas appliances to determine if in need of adjustment, repair, or replacement.

Energy Education will include an extensive review of the customer's current energy practices and their effect on the customer's energy bills. This education will be designed to impart personalized information on how to control the amount of their energy consumption.

V. DIRECT WEATHERIZATION ASSISTANCE/BUILDING ENVELOPE REPAIR

The Weatherization Measures and Building Envelope Repair listed in Attachment A, will be provided, as needed, to eligible customers. There will not be a minimum number of measures per unit required in order for the unit to receive the list of eligible program measures as agreed upon by the Direct Assistance Program Committee.

VI. APPLIANCE REPAIR AND REPLACEMENT

If during a Home Energy Survey it is determined that a customer's appliance is in need of adjustment, repair, or replacement, the agency will arrange for the appropriate service.

VII. REFERRAL

To help ensure that all eligible customers can benefit from SoCalGas' Low Income Assistance and Level Pay programs, as well as DEO programs, information will be provided by the agencies during their outreach and assessment of the customer's homes.

VIII. PROGRAM ADMINISTRATION

A. Responsibility/Accountability

Consistent with SoCalGas Company's Plan of Management, SoCalGas' Direct Assistance Program staff will be held responsible and accountable for ensuring program goals and objectives are achieved.

B. Quality Control

1) Communication: SoCalGas shall have regular meetings of the Direct Assistance Program contractors to explain and demonstrate new installation standards

and will provide regular reports on systemwide program status.

2) Training: SoCalGas will provide training in the following areas: Management/Capability Building, Weatherization, Advanced Weatherization, Mobile Home Weatherization, Home Energy Survey, Energy Education, Appliance Assessment, Repair, Replacement; Outreach and Marketing, available SoCalGas and DEO programs.

3) Inspections: SoCalGas recognizes timely inspections provide a strong incentive for high quality work. Therefore, the company will utilize "on-site" inspections where feasible, while the remainder of inspections will be completed within 90 days of the receipt of properly completed paperwork.

IX. PROGRAM GOALS AND BUDGET

Because there is no field experience with this new program design, preliminary goals and budgets of the individual program elements will be set in consultation with representatives of the Agencies, SoCalGas, and the CPUC. The final annual goals and budgets of the individual program elements of the Direct Assistance Program will be determined in consultation with the Direct Assistance Program Committee, after field experience. Progress toward reaching those goals will be reported in annual and semi-annual reports to the CPUC.

Direct Assistance Program budget shall be $20,546,000 for TY 1990. Expenditures for the Appliance Repair and Replacement element shall not exceed $3.5 million for 1990. The Appliance Repair and Replacement element shall not become the primary program element of the Direct Assistance Program for the years 1990, 1991, or 1992. Reasonable costs for the meetings of the Direct Assistance Program Committee shall be covered by SoCalGas DAP, including per diem and travel for participants excluding CPUC personnel.

The Training Center budget shall be $516,000 for TY 1990.

Accepted and agreed to by

W. I. Mitchell 9/19/89
W. I. Mitchell 9/19/89
Southern California Gas Company

James Hodges 9/19/89
James Hodges 9/19/89
California-Nevada Community Action Association

9/20/89
California Public Utilities Commission
Division of Ratepayer Advocates

ATTACHMENT A

I. Building Envelope Repairs

A. For a building envelope repair to be made within the guidelines of this program:

1. it must be required before one of the eligible measures can be installed or,
2. it is required to stop infiltration in the building envelope.

B. The average cost of Building Envelope Repairs shall not exceed $200 per unit, for each agency, for all units weatherized.

C. The cost of Building Envelope Repairs shall not exceed ~~$400~~ per unit.
$500 WQM · JB Jun

II. Eligible Measures

A. Eligible Measures shall include but not be limited to:

1. Attic insulation
2. Caulking
3. Weather stripping
   - a. Doors
   - b. Windows
   - c. Attic Hatches
   - d. "V" strip on patio doors
   - e. Switch and Outlet Gaskets
4. Hot Water Measures
   - a. Water Heaters
     - 1) Blankets
     - 2) Pipe wrap
     - 3) Cabinet venting
     - 4) Adjustments and Cleaning
       - a) Remove deposits
       - b) Clean flue rod
       - c) Adjust temperature
   - b. Other Hot Water Measures
     - 1) Low Flow Showerheads
     - 2) Diverter Valves
     - 3) Faucet Aerators
5. Window Measures
   - a. Glazing
   - b. Putty, Glazing Compound
   - c. Storm Windows (For certain climate zones only - to be determined by the Direct Assistance Program Committee.)
6. Doors
   - a. Thresholds
7. Replace Heating and Air Conditioning filters
8. Duct Wrap

ATTACHMENT B

DIRECT ASSISTANCE PROGRAM COMMITTEE

SoCalGas shall work with the Agencies to develop the details of the program outlined in this document. This Direct Assistance Program (DAP) Committee shall consist of representatives of the Agencies, SoCalGas, and the Energy Branch of the Advisory and Compliance Division of the CPUC.

The Committee shall work to develop program design and procedures, and budgets and goals for the individual elements of the Direct Assistance Program. Reasonable costs for participants travel and per diem will be borne by the DAP budget excluding CPUC personnel.

(END OF APPENDIX B)

SOUTHERN CALIFORNIA GAS COMPANY

OPERATING REVENUES AT PRESENT RATES
Thousands Of 1990 Dollars
Test Year 1990

Description	Adopted
Authorized Margin for 1988	$1,231,373
Attrition allowance for 1989	21,912
Subtotal	1,253,285
Add: Miscellaneous Revenues	10,678
Add: 1989 CCA Application	0
General Rate Case Revenues	$1,263,963

SOUTHERN CALIFORNIA GAS COMPANY

CALCULATION OF FRANCHISE FEES AND UNCOLLECTIBLES
Thousands Of 1990 Dollars
Test Year 1990

Description	Adopted
Revenues (excl. misc. rev.)	$1,253,285
% of Residential & Commercial Revenues	96.80%
Adopted Residential & Commercial Rev.	$1,213,180
Uncollectible Factor	0.00400
Uncollectibles	$4,853
Revenues (excl. misc. rev.)	$1,253,285
Less: Uncollectibles	4,853
Subtotal	$1,248,432
Franchise Fee Factor	0.01683
Franchise Requirements	$21,016

SOUTHERN CALIFORNIA GAS COMPANY

CLEARING ACCOUNTS
(Thousands Of 1987 Dollars Unless Otherwise Indicated
Test Year 1990

Account No.	Description	Adopted
	Operation	
163.0	Store Expense	$7,770
184.1	Shop Expense	0
184.2	Tool Expense	6,533
184.3	Auto & Const. Equipment	28,425
184.4	Print Shop Expense	0
184.5	Miscellaneous Pipeline Material	1,232
184.6	HQ Bldg Operation Office Expense	715
184.7	Communications Expense	12,783
	Reassignments	(10,757)
	TOTAL CLEARING ACCOUNT (1987$)	$46,701
	Escalation Amounts, 1987 to 1990	
	Labor	1,173
	Non-Labor	1,894
	Other	0
	Total	$3,067
	TOTAL CLEARING ACCOUNT (1990$)	$49,768

SOUTHERN CALIFORNIA GAS COMPANY

UNDERGROUND STORAGE EXPENSE
(Thousands Of 1987 Dollars Unless Otherwise Indicated
Test Year 1990

Account No.	Description	Adopted
	Operation	
814.0	Supervision and Engineering	$1,911
816.0	Wells	1,378
817.0	Lines	940
818.0	Compressor Station	3,251
820.0	Measuring & Regulating Station	147
821.0	Purification	1,113
823.0	Gas Losses	0
824.0	Other	594
825.0	Storage Well Inventories	237
826.0	Rents	392
	Total Operation	$9,963
	Maintenance	
830.0	Supervision and Engineering	0
831.0	Structures and Improvements	196
832.0	Reservoirs and Wells	4,926
833.0	Lines	752
834.0	Compressor Station Equipment	2,461
835.0	Measuring & Reg Station Equip.	83
836.0	Purification Equipment	579
837.0	Other Equipment	124
	Reassignments	(231)
	Total Maintenance	$8,890
	TOTAL UNDERGR. STORAGE (1987$)	$18,853
	Escalation Amounts, 1987 to 1990	
	Labor	835
	Non-Labor	1,250
	Other	0
	Total	$2,086
	TOTAL UNDERGR. STORAGE (1990$)	$20,939

SOUTHERN CALIFORNIA GAS COMPANY

TRANSMISSION EXPENSE
(Thousands Of 1987 Dollars Unless Otherwise Indicated
Test Year 1990

Account No.	Description	Adopted
	Operation	
850.0	Supervision and Engineering	7,094
851.0	System Con. & Load Dispatch	1,611
853.0	Compressor Station	2,534
856.0	Mains Expense	2,667
857.0	Mearsuring & Reg. Station Exp.	1,322
858.0	Trans & Comp of Gas by Others	12
859.0	Other Expenses	2,522
860.0	Rents	305
	Total Operation	$18,067
	Maintenance	
861.00	Supervision and Engineering	0
862.00	Structures and Improvements	201
863.00	Mains	2,426
864.00	Compressor Station Equipment	2,990
865.00	Measuring & Reg Station Equip.	424
867.00	Other Equipment	116
	Reassignments	(875)
	Total Maintenance	$5,282
	TOTAL TRANSMISSION (1987$)	$23,349
	Escalation Amounts, 1987 to 1990	
	Labor	1,422
	Non-Labor	1,040
	Other	0
	Total	$2,462
	TOTAL TRANSMISSION (1990$)	$25,811

SOUTHERN CALIFORNIA GAS COMPANY

DISTRIBUTION EXPENSE
(Thousands Of 1987 Dollars Unless Otherwise Indicated
Test Year 1990

Account No.	Description	Adopted
	Operation	
870.0	Supervision and Engineering	45,925
874.0	Mains and Services	48
875.0	Meas & Reg Station - General	856
878.0	Rem & Res Meters & Regulators	2,213
879.0	Cust. Instal. Exp. - General	62,640
880.0	Maps and Records	13,115
880.0	Other Expenses	9,868
881.0	Rents	177
	Total Operation	$134,842
	Maintenance	
885.00	Supervision and Engineering	0
886.00	Structures and Improvements	1,055
887.00	Mains - Other	16,296
889.00	Meas & Reg Station - General	1,145
892.00	Services	23,358
893.00	Meters & House Regulators	5,950
894.00	Other Equipment	35
	Reassignments	(33,414)
	Total Maintenance	$14,425
	TOTAL DISTRIBUTION (1987$)	$149,267
	Escalation Amounts, 1987 to 1990	
	Labor	11,745
	Non-Labor	2,876
	Other	0
	Total	$14,621
	TOTAL DISTRIBUTION (1990$)	$163,887

SOUTHERN CALIFORNIA GAS COMPANY

CUSTOMER ACCOUNTS EXPENSE
(Thousands Of 1987 Dollars Unless Otherwise Indicated
Test Year 1990

Account No.	Description	Adopted
901.0	Supervision	$4,152
902.0	Meter Reading Expenses	16,322
903.0	Customer Records & Collection Exp	41,297
903.0	Mailing Customer Bills	$13,875
904.0	Uncollectible Accounts	4,853
905.0	Misc. Customer Accounts Exp.	1
	TOTAL CUSTOMER ACCTS. (1987$)	$80,499
	Total (Less Uncollectibles)	$75,647
	Escalation Amounts, 1987 to 1990	
	Labor	5,380
	Non-Labor	855
	Other	0
	Total	$6,234
	TOTAL CUSTOMER ACCTS. (1990$)	$86,734
	Total (Less Uncollectibles)	$81,881

SOUTHERN CALIFORNIA GAS COMPANY

MARKETING EXPENSES
(Thousands Of 1987 Dollars Unless Otherwise Indicated
Test Year 1990

Account No.	Description	Adopted
	Residential & Non-Residential Conservation, Service Planning, and Load Management Expenses	
907.0	Supervision	($528)
908.0	Customer Assistance Expense	42,158
909.0	Informational & Instructional Exp	1,965
910.0	Miscellaneous	10,089
	TOTAL MARKETING EXPENSES (1987$)	53,684
	Escalation Amounts, 1987 to 1990	
	Labor	1,302
	Non-Labor	5,525
	Other	0
	Total	$6,828
	TOTAL MARKETING EXPENSES (1990$)	$60,512

SOUTHERN CALIFORNIA GAS COMPANY

ADMINISTRATIVE & GENERAL EXPENSES
(Thousands Of 1987 Dollars Unless Otherwise Indicated
Test Year 1990

Account No.	Description	Adopted
	Operation	
920.0	Administrative & Gen. Salaries	$69,761
921.0	Office Supplies and Expenses	35,206
922.0	Admin. & Gen. Transfer Credit	0
923.0	Outside Services Employed	17,086
924.0	Property Insurance	1,305
925.0	Injuries and Damages	15,263
926.0	Employee Pensions and Benefits	93,928
927.0	Franchise Requirements	21,016
928.0	Regulatory Commission Expenses	300
930.0	Regulatory Commission Expenses	8,656
930.0	Other Misc. General Expenses	22,615
931.0	Rents	9,433
	Reassignments	(18,177)
	Total Operation	$276,392
	Maintenance	
932.0	Maintenance of General Plant	3,083
	Total Maintenance	3,083
	TOTAL ADMIN. & GEN. (1987$)	$279,475
	Total (Less Franchise Req.)	$258,459
	Escalation Amounts, 1987 to 1990	
	Labor	7,517
	Non-Labor	9,148
	Other	0
	Total	$16,665
	TOTAL ADMIN. & GEN. (1990$)	$296,140
	Total (Less Franchise Req.)	$275,124

SOUTHERN CALIFORNIA GAS COMPANY

EXPENSE SUMMARY
(Thousands Of 1987 Dollars Unless Otherwise Indicated
Test Year 1990

Description	Adopted
TOTAL NON-ESCALATED (1987$)	
Clearing Account	$46,701
Underground Storage	18,853
Transmission	23,349
Distribution	149,267
Customer Accounts	80,499
Marketing	53,684
Administrative and General	279,475
Labor Adjustments	0
Total Non-Escalated	$651,828
TOTAL ESCALATED (1990$)	
Clearing Account	49,768
Underground Storage	20,939
Transmission	25,811
Distribution	163,887
Customer Accounts	86,734
Marketing	60,512
Administrative and General	296,140
Labor Adjustment	0
Total Escalated	$703,791
TOTAL ESCALATION (1987$ to 1990$)	
Clearing Account	3,067
Underground Storage	2,086
Transmission	2,462
Distribution	14,621
Customer Accounts	6,234
Marketing	6,828
Administrative and General	16,665
Labor Adjustments	0
Total Escalation	$51,963

SOUTHERN CALIFORNIA GAS COMPANY

LABOR SUMMARY
(Thousands Of 1987 Dollars Unless Otherwise Indicated
Test Year 1990

Description	Adopted
LABOR NON-ESCALATED (1987$)	
Clearing Account	$12,672
Underground Storage	9,020
Transmission	15,356
Distribution	126,841
Customer Accounts	58,098
Marketing	14,066
Administrative and General	81,180
Labor Adjustments	0
Total Non-Escalated Labor	317,232
Labor Escalation Factor	1.09260
LABOR ESCALATED (1990$)	
Clearing Account	13,845
Underground Storage	9,855
Transmission	16,778
Distribution	138,586
Customer Accounts	63,477
Marketing	15,368
Administrative and General	88,697
Labor Adjustments	0
Total Escalated Labor	346,607
LABOR ESCALATION (1987$ to 1990$)	
Clearing Account	1,173
Underground Storage	835
Transmission	1,422
Distribution	11,745
Customer Accounts	5,380
Marketing	1,302
Administrative and General	7,517
Labor Adjustments	0
Total Labor Escalation	29,375

SOUTHERN CALIFORNIA GAS COMPANY
NON-LABOR SUMMARY
(Thousands Of 1987 Dollars Unless Otherwise Indicated
Test Year 1990

Description	Adopted
NON-LABOR NON-ESCALATED (1987$)	
Clearing Account	$13,974
Underground Storage	9,227
Transmission	7,676
Distribution	21,222
Customer Accounts	6,307
Marketing	40,774
Administrative and General	67,514
Total Non-Escalated Non-Labor	$166,694
Non-Labor Escalation Factor	1.13550
NON-LABOR ESCALATED (1990$)	
Clearing Account	15,868
Underground Storage	10,477
Transmission	8,716
Distribution	24,098
Customer Accounts	7,162
Marketing	46,299
Administrative and General	76,663
Total Escalated Non-Labor	$189,282
NON-LABOR ESCALATION (1987$ to 1990$)	
Clearing Account	1,894
Underground Storage	1,250
Transmission	1,040
Distribution	2,876
Customer Accounts	855
Marketing	5,525
Administrative and General	9,148
Total Non-Labor Escalation	$22,588
Total Non-Labor Escalation	22,588

SOUTHERN CALIFORNIA GAS COMPANY
OTHER SUMMARY
(Thousands Of 1987 Dollars Unless Otherwise Indicated)
Test Year 1990

Description	Adopted
OTHER NON-ESCALATED (1987$)	
Clearing Account	$20,055
Underground Storage	606
Transmission	317
Distribution	1,204
Customer Accounts	16,095
Marketing	(1,156)
Administrative and General	130,781
Total Non-Escalated Other	$167,902
Other Escalation Factor	1.0000
OTHER ESCALATED (1990$)	
Clearing Account	20,055
Underground Storage	606
Transmission	317
Distribution	1,204
Customer Accounts	16,095
Marketing	(1,156)
Administrative and General	130,781
Total Escalated Other	$167,902
OTHER ESCALATION (1987$ to 1990$)	
Clearing Account	0
Underground Storage	0
Transmission	0
Distribution	0
Customer Accounts	0
Marketing	0
Administrative and General	0
Total Other Escalation	$0

SOUTHERN CALIFORNIA GAS COMPANY

TAXES OTHER THAN ON INCOME
Thousands Of 1990 Dollars
Test Year 1990

Description	Adopted
Ad Valorem Taxes	
California	$33,925
Total Ad Valorem Taxes	33,925
Payroll Taxes	
Federal Insurance Contrib. Act	25,714
Federal Unemployment Insurance	500
State Unemployment Insurance	625
Total Payroll Taxes	26,838
Total Taxes OTOI (1990$)	$60,763

SOUTHERN CALIFORNIA GAS COMPANY

INCOME TAX ADJUSTMENTS
Thousands Of 1990 Dollars
Test Year 1990

Description	Adopted
California Income Tax Adjustments	
Tax Depreciation (liberalized)	$165,110
Interest Charges	102,981
Vacation Pay Accrued	(2,256)
Capitalized Overheads On Gas Inv.	(1,479)
Amort. Of 86 Overheads On Gas Inv.	(1,673)
Bad Debt Adjustment	(2,891)
Ad Valorem Fiscal/Calendar Adjust.	203
Removal Costs	9,194
Contribution for Service Ext.	(2,441)
Repair Allowance	7,515
Miscellaneous/Cushion Gas	(6,080)
Gain on Sale of Assets	0
	$268,183
Federal Income Tax Adjustments	
Tax Depreciation (liberalized)	154,297
Interest Charges	106,488
Vacation Pay Accrued	(2,256)
Capitalized Overheads On Gas Inv.	(1,479)
Amort. Of 86 Overheads On Gas Inv.	(1,673)
Bad Debt Adjustment	(2,214)
Ad Valorem Fiscal/Calendar Adjust.	203
Removal Costs	8,438
Contribution for Service Ext.	(2,441)
Repair Allowance	0
Miscellaneous/Cushion Gas	(4,528)
Gain on Sale of Assets	0
	$254,834

SOUTHERN CALIFORNIA GAS COMPANY

TAXES ON INCOME - ADOPTED RATES
Thousands Of 1990 Dollars
Test Year 1990

Description	Adopted
California Corporation Franchise Tax	
Operating Revenues	$1,263,963
Operating Expenses	703,791
Taxes Other Than On Income	60,763
Income Tax Adjustments	268,183
Superfund tax	268
California Taxable Income	$230,959
CCFT Tax Rate	0.093
TOTAL CCFT	$21,479
Federal Income Tax	
Operating Revenues	$1,263,963
Operating Expenses	703,791
Taxes Other Than On Income	60,763
CCFT	21,479
Income Tax Adjustments	254,834
Superfund tax	268
Federal Taxable Income	$222,828
FIT Tax Rate	0.340
Federal Income Tax	$75,762
Investment Tax Credit	(3,711)
Average Rate Assumption	(570)
Amort. of 83-86 Cap. Tax	493
Total Federal Income Tax	$71,974

SOUTHERN CALIFORNIA GAS COMPANY

DEPRECIATION EXPENSE
Thousands Of 1990 Dollars
Test Year 1990

Description	Adopted
Underground Storage	$22,044
Transmission	$21,343
Distribution	$126,872
General	22,907
Subtotal	$193,166
Net Additions	7,753
Total Depreciation Expense	200,919

SOUTHERN CALIFORNIA GAS COMPANY

DEPRECIATION RESERVE
Thousands Of 1990 Dollars
Test Year 1990

Description		Adopted
Depreciation Reserve - BOY		
Underground Storage		$174,306
Transmission		$298,613
Distribution		$999,945
General		$33,827
Depreciation Reserve - BOY		$1,506,691
Depreciation Reserve - EOY		
Underground Storage		196,350
Transmission		319,956
Distribution		1,126,817
General		56,734
Subtotal		1,699,857
Other Adjustments (excl. Depr. expense)		
Retirements	(32,259)	
Net Salvage	(7,108)	
Clearing Account	990	
Other Adjustments (excl. depr.)		(38,377)
Depreciation Reserve - EOY		1,669,233
Depreciation Reserve - Wtd. avg.		$1,588,815

SOUTHERN CALIFORNIA GAS COMPANY

GAS PLANT IN SERVICE - EOY
Thousands Of 1990 Dollars
Test Year 1990

Description	Adopted
Plant in Service - BOY	
Intangibles	$286
Underground Storage	370,385
Transmission Plant	565,972
Distribution Plant	2,944,635
General Plant	220,512
Cushion Gas	69,853
Total Plant in Service : BOY	4,171,643
Plant in Service - Net Additions	
Intangibles	$0
Underground Storage	9,599
Transmission Plant	80,745
Distribution Plant	217,624
General Plant	32,588
Cushion Gas	0
Total Net Additions	340,556
Plant in Service - EOY	
Intangibles	$286
Underground Storage	379,984
Transmission Plant	646,717
Distribution Plant	3,162,259
General Plant	253,100
Cushion Gas	69,853
Total Plant in Service : EOY	4,512,199

SOUTHERN CALIFORNIA GAS COMPANY

GAS PLANT IN SERVICE - WTD. AVG.
Thousands Of 1990 Dollars
Test Year 1990

Description	Adopted
Plant in Service - BOY	
Intangibles	$286
Underground Storage	370,385
Transmission Plant	565,972
Distribution Plant	2,944,635
General Plant	220,512
Cushion Gas	69,853
Total Plant in Service : BOY	4,171,643
Plant in Service - Weighted Average Net Additions	
Intangibles	$0
Underground Storage	4,101
Transmission Plant	34,494
Distribution Plant	92,969
General Plant	13,922
Cushion Gas	0
Total Wtd. Avg. Net Additions	145,485
Total Plant in Service - Weighted Average	
Intangibles	$286
Underground Storage	374,486
Transmission Plant	600,466
Distribution Plant	3,037,604
General Plant	234,434
Cushion Gas	69,853
Total Plant in Service : Wtd. Avg.	4,317,128

SOUTHERN CALIFORNIA GAS COMPANY

WEIGHTED AVERAGE DEPRECIATED RATE BASE
Thousands Of 1990 Dollars
Test Year 1990

Description	Adopted
FIXED CAPITAL @ BEGINNING OF YEAR	
Plant in Service	4,171,643
Total Fixed Capital - BOY	4,171,643
WTD. AVG. NET ADDITIONS	
Plant in Service	145,485
Tot. Wtd. Avg. Fixed Capital	4,317,128
ADJUSTMENTS	
Cust. Adv. for Construction	(46,441)
Total Adjustments	(46,441)
WORKING CAPITAL	
Materials & Supplies	16,984
Working Cash	4,235
Work in Progress	35,173
Accum. Def. IT/Contrib.&Adv	27,591
Total Working Capital	83,983
Tot. Before Ded. for Reserves	4,354,670
DEDUCTIONS FOR RESERVES	
Wtd. Avg.Depreciation Reserve	1,588,815
Deferred Rev. Net of FIT	17,178
Taxes Def. - UCPOAD	0
Taxes Def. - ACRS	179,684
Taxes Def. - ITC	1,989
Aliso Gas Rights	210
Gain On Sales	620
Total Ded. for Reserves	1,788,697
Weighted Average Depreciated Rate Base	$2,565,973

SOUTHERN CALIFORNIA GAS COMPANY

DETERMINATION OF AVERAGE AMOUNTS OF WORKING
CASH CAPITAL SUPPLIED BY INVESTORS
Thousands Of 1990 Dollars
Test Year 1990

Description	Adopted
Operational Cash Requirements	
Required bank Balances	$11,980
Special Deposits & Working Funds	390
Other Receivables	12,950
Prepayments	6,680
Deferred Debits, Company-Wide	1,094
Total	$33,094
Less: Amounts Not Supplied By Investors	
Collection of state regulatory fees	160
Collection of utiltiy users tax	1,180
Employees withholding	1,853
Purchases of capitalized items	18,728
Purchases of materials and supplies	210
Current and accrued liabilities	15,000
Total	$37,131
Total Operational Cash Requirement	($4,037)
Plus: Average Amount Required	
Avg. Amt. Req. as a Result of Paying Expenses in Advance of Collecting Revenues	8,272
Total	$8,272
Average Net Amount of Working Cash Capital Supplied by Investors	$4,235

SOUTHERN CALIFORNIA GAS COMPANY

DEVELOPMENT OF AVERAGE LAG IN PAYMENT OF EXPENSES
Thousands Of 1990 Dollars
Test Year 1990

Description	Expense	Average Lag Days	Product
	(A)	(B)	(C=AxB)
Fed. Income Tax	$108,587	107.60	11683947
FIT: SIT Ded. Ti	0	107.60	0
FIT: SIT Ded. Ti	0	0.00	0
State Income Tax	32,521	80.60	2621178
Franchise Requir	54,800	299.97	16438244
Natural Gas Purc	1,951,986	39.23	76576411
Company Labor	346,607	15.13	5244161
Disability Plan	4,507	15.13	68191
Retirement Savin	8,198	14.00	114772
Pension Expense	34,903	41.25	1439749
Life Insurance	1,572	12.42	19524
Medical & Dental	27,248	3.66	99728
Health Maint. Or	7,215	-8.26	-59593
Goods and Servic	210,564	37.07	7805617
Materials From S	19,185	0.00	0
Depreciation	200,919	0.00	0
Ad Val.Tax - CA	33,925	52.75	1789533
FICA Tax	25,714	19.09	490872
Unemp. Tax - Fed	500	88.05	44001
Unemp. Tax - Cal	625	96.69	60422
Amort Ins Prem	5,932	0.00	0
Workers Comp.	7,420	-0.03	-223
Benef Fees & Ser	4,571	72.68	332220
Deferred Income	21,774	0.00	0
Adj. to Fed. Inc	(21,774)	107.60	-2342882
TOTAL	3,087,498		122425873

Exp. Lag Days	39.65	= (C)/(A)
Revenue Lag Days	40.63	
Adj. to Rate Bas	8,272	
Rate Base Factor	2,557,702	
New Rate Base	$2,565,973	

SOUTHERN CALIFORNIA GAS COMPANY

SUMMARY OF EARNINGS AT ADOPTED PRESENT RATE
REVENUES AND EXPENSES
(Thousands Of 1990 Dollars Unless Otherwise Indicated
Test Year 1990

Description	Adopted
Operating Revenues	
General Rate Case Revenues	$1,263,963
Total Operating Revenues	$1,263,963
Operating Expenses	
Clearing Account	46,701
Underground Storage	18,853
Transmission	23,349
Distribution	149,267
Customer Accounts	75,647
Uncollectibles	4,853
Marketing	53,684
Administrative & General	258,459
Franchise Requirements	21,016
Labor Adjustment	0
Subtotal (1987 Dollars)	$651,828
Labor Escalation Amount	29,375
Non-Labor Escalation Amount	22,588
Subtotal (1990 Dollars)	$703,791
Depreciation	200,919
Taxes Other Than On Income	60,763
Superfund tax	268
CA Corporation Franchise Tax	21,479
Federal Income Tax	71,974
Total Operating Expenses	$1,059,194
Net Operating Income	$204,769
Rate Base	2,565,973
Rate of Return (Total System)	7.98%

SOUTHERN CALIFORNIA GAS COMPANY

ADOPTED SUMMARY OF EARNINGS
(Thousands Of 1990 Dollars Unless Otherwise Indicated
Test Year 1990

Description	Adopted
Operating Revenues	
Adopted Present Rate Revenues	$1,263,963
Authorized incr. in Revenues	121,362
Subtotal	$1,385,325
Operating Expenses	
Clearing Account	49,768
Underground Storage	20,939
Transmission	25,811
Distribution	163,887
Customer Accounts	81,881
Uncollectibles	5,323
Marketing	60,512
Administrative & General	275,124
Franchise Requirements	23,051
Labor Adjustment	0
Subtotal (1990 Dollars)	$706,296
Depreciation	200,919
Taxes Other Than On Income	60,763
Superfund tax	397
CA Corporation Franchise Tax	32,521
Federal Income Tax	108,587
Total Operating Expenses	$1,109,483
Net Operating Income	$275,842
Rate Base	2,565,973
Rate of Return	10.75%

SOUTHERN CALIFORNIA GAS COMPANY

DEVELOPMENT OF THE NET-TO-GROSS MULTIPLIER
Test Year 1990

Description	(A)	(B)	(C=A*B)
Gross Operating Revenues			1.000000
Less: Uncoll.	0.004000	0.968000	0.003872
			0.996128
Less: Franchise	0.016834	0.996128	0.016769
			0.979359
Less: Superfund	0.001200	0.887313	0.001065
			0.978294
Less: S.I.T.	0.093000	0.978294	0.090981
			0.887313
Less: F.I.T.	0.340000	0.887313	0.301686
Net Operating Revenues			0.585627
Uncoll. & F.F. Factor			1.021076
Superfund, State & Fed. Tax Factor			1.672327
N-T-G Multiplier			1.707573

SOUTHERN CALIFORNIA GAS COMPANY

ESCALATION FACTORS and COST OF CAPITAL
Test Year 1990

Description		Adopted
LABOR ------------> ESCALATION FACTORS	1988	2.100%
	1989	2.468%
	1990	4.435%
	1991	4.120%
	1992	4.400%
NON-LABOR --------> ESCALATION FACTORS	1988	5.600%
	1989	4.600%
	1990	2.800%
	1991	5.500%
	1992	5.274%
OTHER ------------>	ALL YEARS	0.000%

COMPOSITE ESCALATION FACTORS

LABOR	1987 TO 1990	9.260%
NON-LABOR	1987 TO 1990	13.550%
OTHER	1987 TO 1990	0.000%

	COST	CAPITALIZATION	WTD. COST
Debt	9.22%	45.00%	4.15%
Pref. Stock	7.31%	9.70%	0.71%
Common equity	13.00%	45.30%	5.89%
Auth. Return on Rate Base (CPUC Jurisdiction) :			10.75%

(END OF APPENDIX C)

ATTRITION YEAR 1991

	Expenses for AY1991 in 000's of 1990$	Expenses for AY1991 in 000's of 1990$ (Calif.)	Transfer of Other Expenses to Labor/ Non-Labor	Expenses for AY1991 in 000's of 1990$ for Attrition purposes
	A D O P T E D	I N	G R C	
Clearing Accts. (Juris. Alloc. Factor =			1.0000	
Labor	13,845	13,845	0	13,845
Non Labor	15,868	15,868	20,055	35,923
Other	20,055	20,055	(20,055)	0
	49,768	49,768	0	49,768
Transmission (Juris. Alloc. Factor =			1.0000	
Labor	16,778	16,778	0	16,778
Non Labor	8,716	8,716	317	9,033
Other	317	317	(317)	0
	25,811	25,811	0	25,811
Distribution (Juris. Alloc. Factor =			1.0000	
Labor	138,586	138,586	0	138,586
Non Labor	24,098	24,098	1,204	25,302
Other	1,204	1,204	(1,204)	0
	163,887	163,887	0	163,887
Customer Accounts (Juris. Alloc. Factor			1.0000	
Labor	63,477	63,477	0	63,477
Non Labor	7,162	7,162	11,242	18,404
Other	16,565	16,565	(11,242)	5,323
	87,204	87,204	0	87,204
Marketing (Juris. Alloc. Factor =			1.0000)	
Labor	15,368	15,368	0	15,368
Non Labor	46,299	46,299	0	46,299
Other	(1,156)	(1,156)	0	(1,156)
	60,512	60,512	0	60,512
Admin. & Gen. (Juris. Alloc. Factor =			1.0000	
Labor	88,697	88,697	0	88,697
Non Labor	76,663	76,663	109,765	186,428
Other	132,816	132,816	(109,765)	23,051
	298,175	298,175	0	298,175

	Expenses for AY1991 in 000's of 1990$	Expenses for AY1991 in 000's of 1990$ (Calif.)	Transfer of Other Expenses to Labor/ Non-Labor	Expenses for AY1991 in 000's of 1990$ for Attrition purposes
	A D O P T E D	I N	G R C	
Underground Storage (Juris. Alloc. Fact			1.0000	
Labor	9,855	9,855	0	9,855
Non Labor	10,477	10,477	606	11,083
Other	606	606	(606)	0
	20,939	20,939	0	20,939
TOTAL O&M EXPENSES				
Labor	346,607	346,607	0	346,607
Non Labor	189,282	189,282	143,189	332,471
Other	170,407	170,407	(143,189)	27,218
	706,296	706,296	0	706,296

Labor Base for AY 1989 in 1988$ (Adopted in GRC)	$346,607
1990 Labor Escalation (estimated in GRC)	4.44%
1989 Labor Escalation (estimated in GRC)	2.47%
1988 Labor Escalation (estimated in GRC)	2.10%
1988 Labor Escalation (use recorded)	2.10%
1989 Labor Escalation (use recorded)	2.47%
1990 Labor Escalation (use updated estimate)	4.44%
1991 Labor Escalation (use updated estimate of CPI-Wage Earners)	4.12%
Labor Base for AY 1991 in 1991$	360,887
Labor Escalation for AY 1991 in 1991$	14,280
Uncoll. & Franchise Fee Factor (Adopted in GRC)	1.021076
Increase in Revenue Requirement	14,581

Non-Labor Base for AY 1991 in 1990$ (Adopted in GRC	332,471
1990 Non-Labor Escalation (estimated in GRC)	2.80%
1989 Non-Labor Escalation (estimated in GRC)	4.60%
1988 Non-Labor Escalation (estimated in GRC)	5.60%
1988 Non-Labor Escalation (recorded)	5.60%
1989 Non-Labor Escalation (recorded)	4.60%
1990 Non-Labor Escalation (use updated estimate)	2.80%
1991 Non-Labor Escalation (use updated estimate)	5.50%
Non-Labor Base for AY 1991 in 1991$	350,757
Non-Labor Escalation for AY 1991 in 1991$	18,286
Uncoll. & Franchise Fee Factor (Adopted in GRC)	1.021076
Increase in Revenue Requirement	18,671

Depreciation Exp. (Juris. Alloc. Factor 1.0000)

System avg. Depreciation Rate (Adopted in GRC)	4.6540%
Increase in Wtd. Avg. Plant in Service for AY1991 (Adopted in GRC)	352,740
Increase in Depreciation expense	16,417
Increase in Depreciation expense (Calif.)	16,417
Net-to-Gross Multiplier (Adopted in GRC)	1.707573
Increase in Revenue Requirement	28,032

Ad Valorem Taxes (Juris. Alloc. Factor 1.0000)

System avg. Ad Valorem Tax Rate (Adopted in GRC)	0.7518%
Increase in AY1991 EOY Plant in Service from TY1990 EOY Plant in Service (Adopted in GRC)	369,077
Increase in Ad Valorem Taxes	2,775
Increase in Ad Valorem Taxes (Calif.)	2,775
Uncoll. & F.F. Factor	1.021076
Increase in Revenue Requirement	2,833

State Tax Depr. (Juris. Alloc. Factor =	1.0000)	
State Tax Depr. Rate (Adopted in GRC)		3.6354%
Increase in AY1991 EOY Plant in Service from TY1990 EOY Plant in Service (Adopted in GRC)		369,077
Increase in State Tax Depreciation		13,417
Increase in CCFT (Tax Rate =	9.3000%	(1,248)
Increase in FIT (Tax Rate =	34.0000%	424
Increase in State & Federal Taxes		(824)
Net-to-Gross Multiplier (Adopted in GRC)		1.707573
Increase in Revenue Requirement		(1,406)

Federal Tax Depr. (Juris. Alloc. Factor	1.0000)	
Federal Tax Depr. Rate (Adopted in GRC)		3.3973%
Increase in AY1991 EOY Plant in Service from TY1990 EOY Plant in Service (Adopted in GRC)		369,077
Increase in Federal Tax Depreciation		12,539
Increase in Federal Taxes (Tax Rate	34.0000%	(4,263)
Net-to-Gross Multiplier (Adopted in GRC)		1.707573
Increase in Revenue Requirement		(7,280)

ITC Normalized (Juris. Alloc. factor = (Applicable to IRC Sec. 46(f)(2) utilities only)	1.0000)	
Attrition Year 1991 (Adopted in GRC)		(3,642)
Test Year 1990 (Adopted in GRC)		(3,711)
Increase in ITC normalized		69
Net-to-Gross Multiplier (Adopted in GRC)		1.707573
Increase in Revenue Requirement		118

Interest Synchro. (Juris Alloc. Factor (Applicable to IRC Sec. 46(f)(2) utilities only)	1.0000)	
ITC Normalized in TY1990 (from above)		3,711
Wtd. cost of Long Term Debt (Adopted in AY1991)		4.15%
Increase in CCFT interest		154
Increase in CCFT (Tax Rate =	9.3000%	(14)
Increase in FIT (Tax Rate =	34.0000%	5
Increase in State & Federal Taxes		(9)
Net-to-Gross Multiplier (Adopted in GRC)		1.707573
Increase in Revenue Requirement		(16)

Rate Base (Juris. Alloc. Factor = 1.0000)

Wtd. avg. Depr Rate Base for TY1990 (Adopted in GRC	2,565,973
Plant in Service (Adopted in GRC)	
Wtd. avg. Additions for TY1990	(145,485)
Net Additions for TY1990	340,556
Wtd. avg. Additions for AY1991	157,670
Depreciation Reserve (Adopted in GRC)	
Wtd. avg. Depreciation Reserve for TY1990	1,588,815
Wtd. avg. Depreciation Reserve for AY1991	(1,757,145)
Taxes Deferred - ACRS (Adopted in GRC)	
Wtd. avg. Deferred Taxes - ACRS for TY1990	179,884
Wtd. avg. Deferred Taxes - ACRS for AY1991	(192,899)
Wtd. avg. Depr Rate Base for AY1991	2,737,370

Wtd. avg. Depr. Rate Base in TY1990 (Adopted in GRC	2,565,973
Wtd. avg. Depr. Rate Base in AY1991 (Adopted in GRC	2,737,370
Wtd. avg. Depr. Rate Base in TY 1990 (Calif.)	2,565,973
Wtd. avg. Depr. Rate Base in AY 1991 (Calif.)	2,737,370
Long-term Debt	
Return on Debt in TY 1990 (Adopted in GRC)	9.22%
Debt capitalization in TY 1990 (Adopted in GRC)	45.00%
Wtd. cost of Debt for Test Year 1990	4.15%
Return on Debt in AY 1991 (Adopted in AY1991)	9.22%
Debt capitalization in AY 1991 (Adopted in AY1991)	45.00%
Wtd. cost of Debt for Attrition Year 1991	4.15%
Increase in Debt cost in Attrition Year 1991	7,113
Uncoll. & F.F. Factor	1.021076
Increase in Revenue Requirement	7,263

Preferred Stock

Return on Pref. Stock in TY 1990 (Adopted in GRC)	7.31%
Pref.Stk. capitalization in TY1990 (Adopted in GRC)	9.70%
Wtd. cost of Preferred Stock for Test Year 1990	0.71%
Return on Pref. Stock in AY1991 (Adopted in AY1991)	7.31%
Pref.Stk. capitalization AY1991 (Adopted in AY1991)	9.70%
Wtd. cost of Preferred Stock for Att. Year 1991	0.71%
Increase in Pref. Stock cost in Att. Year 1991	1,217
Net-to-Gross Multiplier (Adopted in GRC)	1.707573
Increase in Revenue Requirement	2,078

Common Equity

Return on Common Equity in TY 1990 (Adopted in GRC)	13.00%
Com. Equity capitalization TY 1990 (Adopted in GRC)	45.30%
Wtd. cost of Common Equity for Test Year 1990	5.89%
Return on Common Equity AY 1991 (Adopted in AY1991)	13.00%
Com. Eq. capitalization AY 1991 (Adopted in AY1991)	45.30%
Wtd. cost of Common Equity for Att. Year 1991	5.89%
Increase in Common Equity cost in Att. Year 1991	10,095
Net-to-Gross Multiplier (Adopted in GRC)	1.707573
Increase in Revenue Requirement	17,238

RATEBASE MONITORING

Wtd. avg. Depr.RateBase in TY1990 (Adopted in GRC)	2,565,973
Wtd. avg. Depr.RateBase in TY1990 (use updated est.	2,565,973
Wtd. avg. Depr.RateBase in AY1991 (Adopted in GRC)	2,737,370
Wtd. avg. Depr.RateBase in AY1991 (use updated est.	2,737,370

REVENUE REQUIREMENTS FOR ATTRITION YEAR 1991
Thousands Of 1991$

ITEM	ATTRITION YEAR 1991
O & M EXPENSES :	
Labor Escalation	$14,581
Non-Labor Escalation	18,671
Total O&M Expenses	33,252
CAPITAL RELATED ITEMS :	
Book Depreciation Expenses	28,032
Ad Valorem Taxes	2,833
State Tax Depreciation	(1,406)
Federal Tax Depreciation	(7,280)
ITC Normalized	118
Interest Synchro.	(16)
Debt cost	7,263
Preferred Stock cost	2,078
Common Equity cost	17,238
Total Capital Related Items	48,861
OTHER AUTHORIZED ITEMS :	
Amortization of CIAC revenues	(43)
Conservation Audit Adjustment	(1,156)
TOTAL ADD'L REVENUE REQUIREMENTS ---->	$80,914

ATTRITION YEAR 1992

	Expenses for AY1992 in 000's of 1990$	Expenses for AY1992 in 000's of 1990$ (Calif.)	Transfer of Other Expenses to Labor/ Non-Labor	Expenses for AY1992 in 000's of 1990$ for Attrition purposes

A D O P T E D   I N   G R C

Labor Base

Total Labor Base for AY 1992 in 1991$	360,887
1991 Labor Escalation (estimated in GRC)	4.12%
1990 Labor Escalation (estimated in AY1991)	4.44%
1990 Labor Escalation (use recorded)	4.44%
1991 Labor Escalation (use updated estimate)	4.12%
1992 Labor Escalation (use updated estimate of CPI-Wage Earners)	4.40%
Labor Base for AY 1992 in 1992$	376,766
Labor Escalation for AY 1992 in 1992$	15,879
Uncoll. & Franchise Fee Factor (Adopted in GRC)	1.021076
Increase in Revenue Requirement	16,214

Non-Labor Base

Non-Labor Base for AY 1991 (Adopted in AY1991)	$350,757
1991 Non-Labor Escalation (estimated in GRC)	5.50%
1990 Non-Labor Escalation (estimated in AY1989)	2.80%
1990 Non-Labor Escalation (use recorded)	2.80%
1991 Non-Labor Escalation (use updated estimate)	5.50%
1992 Non-Labor Escalation (use updated estimate)	5.27%
Non-Labor Base for AY 1992 in 1992$	369,256
Non-Labor Escalation for AY 1992 in 1992$	18,499
Uncoll. & Franchise Fee Factor (Adopted in GRC)	1.021076
Increase in Revenue Requirement	18,889

Depreciation Exp. (Juris. Alloc. Factor 1.0000)

System avg. Depreciation Rate (Adopted in GRC)	4.6540%
Increase in Wtd. Avg. Plant in Service for AY1992 (Adopted in GRC)	374,675
Increase in Depreciation expense	17,437
Net-to-Gross Multiplier (Adopted in GRC)	1.707573
Increase in Revenue Requirement	29,776

Ad Valorem Taxes (Juris. Alloc. Factor 1.0000)

System avg. Ad Valorem Tax Rate (Adopted in GRC)	0.7518%
Increase in AY1992 EOY Plant in Service from AY1991 EOY Plant in Service (Adopted in GRC)	382,182
Increase in Ad Valorem Taxes	2,873
Uncoll. & F.F. Factor	1.021076
Increase in Revenue Requirement	2,934

State Tax Depr. (Juris. Alloc. Factor = 1.0000)

State Tax Depr. Rate (Adopted in GRC)		3.6354%
Increase in AY1992 EOY Plant in Service from AY1991 EOY Plant in Service (Adopted in GRC)		382,182
Increase in State Tax Depreciation		13,894
Increase in CCFT (Tax Rate =	9.3000%	(1,292)
Increase in FIT (Tax Rate =	34.0000%	439
Increase in State & Federal Taxes		(853)
Net-to-Gross Multiplier (Adopted in GRC)		1.707573
Increase in Revenue Requirement		(1,456)

Federal Tax Depr. (Juris. Alloc. Factor 1.0000)

Federal Tax Depr. Rate (Adopted in GRC)		3.3973%
Increase in AY1992 EOY Plant in Service from AY1991 EOY Plant in Service (Adopted in GRC)		382,182
Increase in Federal Tax Depreciation		12,984
Increase in Federal Taxes (Tax Rate	34.0000%	(4,415)
Net-to-Gross Multiplier (Adopted in GRC)		1.707573
Increase in Revenue Requirement		(7,538)

ITC Normalized (Juris. Alloc. factor = 1.0000)
(Applicable to IRC Sec. 46(f)(2) utilities only)

Attrition Year 1992 (Adopted in GRC)	(3,545)
Attrition Year 1991 (Adopted in GRC)	(3,642)
Increase in ITC normalized	97
Net-to-Gross Multiplier (Adopted in GRC)	1.707573
Increase in Revenue Requirement	166

Interest Synchro. (Juris Alloc. Factor 1.0000)
(Applicable to IRC Sec. 46(f)(2) utilities only)

ITC Normalized in TY1990 (from above)		3,642
Wtd. cost of Long Term Debt (Adopted in AY1991)		4.15%
Increase in CCFT interest		151
Increase in CCFT (Tax rate =	9.3000%	(14)
Increase in FIT (Tax Rate =	34.0000%	5
		(9)
Net-to-Gross Multiplier (Adopted in GRC)		1.707573
Increase in Revenue Requirement		(16)

Rate Base (Juris. Alloc. Factor = 1.0000)

Wtd. avg. Depr Rate Base for AY1989 (Adopted in GRC	2,737,370
Plant in Service (Adopted in GRC)	
Wtd. avg. Additions for AY1991	(157,670)
Net Additions for AY1991	369,077
Wtd. avg. Additions for AY1992	163,268
Depreciation Reserve (Adopted in GRC)	
Wtd. avg. Depreciation Reserve for AY1991	1,757,145
Wtd. avg. Depreciation Reserve for AY1992	(1,940,022)
Taxes Deferred - ACRS (Adopted in GRC)	
Wtd. avg. Deferred Taxes - ACRS for AY1991	192,899
Wtd. avg. Deferred Taxes - ACRS for AY1992	(195,599)
Wtd. avg. Depr Rate Base for AY1992	2,926,468
Wtd. avg. Depr. Rate Base in Attrition Year 1991	2,737,370
Wtd. avg. Depr. Rate Base in Attrition Year 1992	2,926,468
Wtd. avg. Depr. Rate Base in AY 1991 (Calif.)	2,737,370
Wtd. avg. Depr. Rate Base in AY 1992 (Calif.)	2,926,468

Long-term Debt

Return on Debt in AY 1991 (Adopted in AY1991)	9.22%
Debt capitalization in AY 1991 (Adopted in AY1991)	45.00%
Wtd. cost of Debt for Attrition Year 1991	4.15%
Return on Debt in AY 1992 (Adopted in AY1992)	9.22%
Debt capitalization in AY 1992 (Adopted in AY1992)	45.00%
Wtd. cost of Debt for Attrition Year 1992	4.15%
Increase in Debt cost in Attrition Year 1992	7,848
Uncoll. & F.F. Factor	1.021076
Increase in Revenue Requirement	8,013

Preferred Stock

Return on Pref. Stock in AY 1991 (Adopted in AY1991	7.31%
Pref.Stk. capitalization AY 1991 (Adopted in AY1991	9.70%
Wtd. cost of Preferred Stock for Test Year 1991	0.71%
Return on Pref. Stock in AY 1992 (Adopted in AY1992	7.31%
Pref.Stk. capitalization AY 1992 (Adopted in AY1992	9.70%
Wtd. cost of Preferred Stock for Att. Year 1992	0.71%
Increase in Pref. Stock cost in Att. Year 1992	1,343
Net-to-Gross Multiplier (Adopted in GRC)	1.707573
Increase in Revenue Requirement	2,293

Common Equity

Return on Com. Eq. in AY 1991 (Adopted in AY1991)	13.00%
Com. Eq. capitalization AY 1991 (Adopted in AY1991)	45.30%
Wtd. cost of Common Equity for Att. Year 1991	5.89%
Return on Com. Eq. in AY 1992 (Adopted in AY1992)	13.00%
Com. Eq. capitalization AY 1992 (Adopted in AY1992)	45.30%
Wtd. cost of Common Equity for Att. Year 1992	5.89%
Increase in Common Equity cost in Att. Year 1992	11,138
Net-to-Gross Multiplier (Adopted in GRC)	1.707573
Increase in Revenue Requirement	19,019

RATEBASE TRACKING

Wtd. avg. Depr.Rate Base in TY1990 (Adopted in GRC)	2,565,973
Wtd. avg. Depr.Rate Base in TY1990 (estimated at the time of filing for AY 1991)	2,565,973
Wtd. avg. Depr.RateBase in TY1990 (recorded)	2,565,973
Wtd. avg. Depr.RateBase in AY1991 (Adopted in GRC)	2,737,370
Wtd. avg. Depr.RateBase in AY1991 (estimated at the time of filing for AY 1991)	2,737,370
Wtd. avg. Depr.RateBase in AY1991 (use updated est.	2,737,370
Wtd. avg. Depr.RateBase in AY1992 (Adopted in GRC)	2,926,468
Wtd. avg. Depr.RateBase in AY1992 (use updated est.	2,926,468

SOUTHERN CALIFORNIA GAS COMPANY

REVENUE REQUIREMENTS FOR ATTRITION YEAR 1992
Thousands Of 1992$

ITEM	ATTRITION YEAR 1992
O & M EXPENSES :	
Labor Escalation	$16,214
Non-Labor Escalation	18,889
Total O&M Expenses	35,102
CAPITAL RELATED ITEMS :	
Book Depreciation Expenses	29,776
Ad Valorem Taxes	2,934
State Tax Depreciation	(1,456)
Federal Tax Depreciation	(7,538)
ITC Normalized	166
Interest Synchro.	(16)
Debt cost	8,013
Preferred Stock cost	2,293
Common Equity cost	19,019
Total Capital Related Items	53,189
OTHER AUTHORIZED ITEMS :	
Amortization of CIAC revenues	(48)
Conservation Audit Adjustment	(1,156)
TOTAL ADD'L REVENUE REQUIREMENTS ---->	$87,088

(END OF APPENDIX D)