

APR 1 1991

Decision 91-04-028 April 10, 1991

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)

INTERIM OPINION

This decision authorizes Southern California Gas Company (SoCalGas) to establish a memorandum account for the purpose of recording costs associated with its move to its new headquarters. SoCalGas is authorized to record in the account those costs included in A.88-12-047 which are incurred on or after the effective date of this interim order.

Background

By a letter dated September 12, 1990, SoCalGas and the Division of Ratepayer Advocates (DRA) proposed a rate mechanism to assure that the Commission authorized costs of SoCalGas' new headquarters are properly reflected in rates. The proposed mechanism is described as follows:

"... the incremental revenue requirement for 1991 associated with the new headquarters would be based upon the premise that the Commission decision will be rendered after the first of the year but before SoCalGas becomes obligated to commence rent payments for its new headquarters, currently projected for June 1, 1991. The 1991 costs SoCalGas has presented in Phase II are based upon the June 1 rental date. Rates would be determined as of the effective date of the Commission's decision and would reflect the adopted 1991 revenue requirement spread over the balance of the year rather than

on a 12-month basis. The revenue requirement would include both operating and maintenance expense items as well as any rate base effect, including depreciation and income taxes, that the Commission finds reasonable for the new headquarters in Phase II. Rather than have an actual rate change mid-year however, SoCalGas would prefer to record the adopted 1991 revenue requirement for the new headquarters facility in an interest bearing (three month commercial paper rate) memorandum account as it accumulates. The additional 1991 revenue requirement would then be included in rates billed to customers in conjunction with the next rate adjustment following the Commission decision in this proceeding but, in any case, no later than January 1, 1992.

"In the event that SoCalGas' obligation to pay rent is delayed beyond June 1, 1991, the excess revenue requirement associated with the delay will be corrected by an appropriate adjustment to the memorandum account. For each day of delay, the amount of the adjustment will equal the difference between the annualized Phase I headquarters costs already included in rates, and the annualized new headquarters costs that the Commission finds reasonable in Phase II, divided by 365."

On December 21, 1990, SoCalGas filed a motion requesting the Commission to authorize two memorandum accounts: (1) a memorandum account associated with the proposed ratemaking mechanism, and (2) a different memorandum account to record expenses in connection with SoCalGas' move to the new headquarters which may be incurred prior to the Commission's decision on the reasonableness of such costs.

SoCalGas is scheduled to move into its new headquarters on June 1, 1991. A decision by the Commission on the reasonableness of the new headquarters' cost is not expected until after June 1. SoCalGas' motion stated:

"Unless the Commission takes some action, SoCalGas will be incurring expenses related to the move that will not be authorized for

recovery in rates. In order to ensure that the rates are recoverable, and not subject to the charge of retroactive ratemaking, SoCalGas requests that the Commission authorize SoCalGas to record in an interest-bearing memorandum account all new headquarters-related expenses incurred prior to the Commission's decision in this proceeding."

DRA filed a response to SoCalGas' motion, objecting to the approval of the second memorandum account. Although DRA continues to support the proposed ratemaking mechanism, DRA objects to the second memorandum account because DRA believes the second proposal is too broad and requires clarification. Moreover, DRA notes that SoCalGas' Application already includes all costs related to the new headquarters:

"The possibility of retroactive ratemaking, therefore, does not exist, even if a decision on the Application in Phase II is not issued before SoCalGas incurs some of the costs."

On January 22, 1991, in reply to DRA's response, SoCalGas withdrew its request for a second memorandum account:

"All costs to be incurred in connection with the move to the new headquarters building have been submitted in the SoCalGas application. Assuming Commission approval of the agreed-upon Ratemaking Mechanism, the entire approved revenue requirement for all of 1991 will be spread over the balance of 1991 beginning on the effective date of the Commission decision. SoCalGas has therefore concluded that if this Ratemaking Mechanism is approved as agreed upon with DRA, any expenses included in the Application that are actually incurred prior to the date of the decision will nevertheless be included in rates, assuming they are found reasonable. Thus, SoCalGas agrees with DRA that its second request for the memorandum account to record expenses incurred prior to the date of the decision is not necessary."

Discussion

The proposed ratemaking mechanism, as recommended in September 1990, contemplated that a decision on the reasonableness of the new headquarters costs would be issued prior to the date SoCalGas becomes obligated to commence rent payments on the new headquarters. The recommendation provides that the adopted revenue requirement would be placed into a balancing account (the proposal erroneously refers to a memorandum account), and that the amounts incurred in the balancing account would be billed to customers in conjunction with the next rate adjustment.

The proposed ratemaking mechanism does not address the eventuality that a decision on the merits of the application would be issued after SoCalGas incurred rent payments or other significant expenses. Although the proposal would allow SoCalGas to record the "adopted revenue requirement" in a balancing account, the proposal does not address how costs incurred by SoCalGas prior to the Commission's decision would be included in the adopted revenue requirement. It is not sufficient that expenses incurred prior to the decision authorizing recovery merely be included in the Application. If expenses, other than capital costs, are incurred after an application is filed but before the decision authorizing recovery, such expenses may be recovered only if the Commission has expressly provided the applicant prior authorization to record the costs in a memorandum account. SoCalGas was correct when it stated in its December 21, 1990, motion, "Unless the Commission takes some action, SoCalGas will be incurring expenses related to the move that will not be authorized for recovery in rates."

Although SoCalGas withdrew its request for a memorandum account for the purpose of recording costs prior to the date of our decision in this proceeding, we conclude that such a memorandum account is the only method by which SoCalGas may preserve the right

for possible future recovery of these costs. Therefore, we will authorize the account.

SoCalGas should record in this account those additional expenses, other than capital costs, which are incurred in connection with its move to the new headquarters. We further recognize that SoCalGas will incur certain savings when it moves to the new headquarters. Because expenses associated with operation in the existing headquarters facilities are currently authorized in rates, SoCalGas should also record in this account, as a debit, all expenses which are reduced or avoided by vacating its existing headquarters facilities. By authorizing a memorandum account, we do not at this time make a finding on the merits of the costs which may be recorded in the account.

As for the joint proposal for a ratemaking mechanism, this proposal generally addresses the procedures for recovery of the revenue requirement after a decision is issued. We will consider this proposal further in our decision on the merits of the application.

Findings of Fact

1. SoCalGas filed A.88-12-047 requesting authority to recover in rates certain costs associated with its move to a new headquarters.
2. SoCalGas is expected to move into its new headquarters on June 1, 1991.
3. A Commission decision on the merits of the application is expected to be issued after June 1, 1991.
4. SoCalGas is likely to incur some of the costs set forth in its application prior to a Commission decision on the merits of the application.
5. SoCalGas is likely to realize savings of some expenses associated with vacating its existing headquarters facilities, prior to a Commission decision on the merits of the application. These expenses are currently authorized in rates.

6. SoCalGas will be able to recover only those expenses associated with its move to the new headquarters which are incurred after receiving the Commission's approval to record such expenses in a memorandum account or which are incurred after a decision on the merits of the application.

Conclusions of Law

1. SoCalGas should be authorized to record in a memorandum account all expenses associated with its move to its new headquarters, provided that (1) such expenses are incurred on or after the effective date of this decision, and (2) such expenses are included in A.88-12-047.

2. Because SoCalGas may incur such costs imminently, this order should be effective today.

INTERIM ORDER

IT IS ORDERED that Southern California Gas Company (SoCalGas) is authorized to record in a memorandum account all expenses associated with its move to its new headquarters, subject to the following terms and conditions:

- a. SoCalGas may record in the memorandum account only those expenses, other than capital costs, which are included in A.88-12-047,
- b. Authority to implement this memorandum account is effective on the date of this order. No costs or expenses paid or incurred prior to the date of this order shall be included in the account, and
- c. Costs recorded in the account shall be subject to recovery only after a finding by the Commission that such costs are prudently incurred, and shall not be placed into rates until after such review and so ordered by the commission.

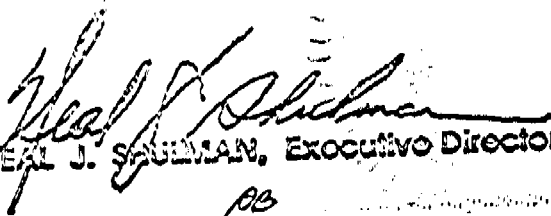
- d. SoCalGas shall debit in the memorandum account all expenses, other than capital costs, which are reduced or avoided by vacating its existing headquarters facilities.
- e. The account shall include carrying costs at the three-month commercial paper rate.

This order is effective today.

Dated April 10, 1991, at San Francisco, California.

PATRICIA M. ECKERT
President
G. MITCHELL WILK
JOHN B. OHANIAN
DANIEL Wm. FESSLER
NORMAN D. SHUMWAY
Commissioners

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


NEAL J. SPELMAN, Executive Director