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Decision 91-08-029 August 7, 1991

BEFORE THE PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

ORIGINAL

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.	Application 88-12-047 (Filed December 27, 1988)
And Related Matter.	I.89-03-032 (Filed March 22, 1989)

ORDER MODIFYING DECISION 91-04-028

In September 1990, Southern California Gas Company (SoCalGas) and the Division of Ratepayer Advocates (DRA) proposed a ratemaking mechanism intended to allow SoCalGas to record and recover the costs of moving into its new headquarters. Decision (D.) 90-04-028 rejected the proposal. We found that the proposal was fatally flawed because it did not contemplate the eventuality that a decision on the merits of the application would be issued after SoCalGas incurred rent payments or other significant expenses.

In addition to the proposed rate mechanism, SoCalGas proposed, and then inexplicably withdrew, a request to establish a memorandum account to record expenses that may be incurred prior to the Commission's decision. Although SoCalGas withdrew its request for a memorandum account for expenses, we found that such an account is the only method by which SoCalGas may preserve the right for possible future recovery of these costs. Therefore, we authorized SoCalGas to record in a memorandum account "those expenses, other than capital costs, which are included in A.88-12-047."

On May 2, 1991, SoCalGas filed a petition to modify D.91-04-028. The petition alleges as follows:

> "During the period of construction of the new headquarters building, project costs are recorded as construction work in progress (CWIP). The carrying cost of the capital investment is recovered through the allowance for funds used during construction (AFUDC). At the time the project is completed (in this case, when the rental obligation on the new headquarters building commences), the amounts recorded in CWIP and the associated AFUDC will be placed in rate base, and AFUDC will cease to accumulate. Therefore, if SoCalGas is not allowed to place the return associated with the capital costs in the memorandum account, there will be no way for it to recover that return between the date the capital costs are placed in rate base and the date of the Commission's decision. Because AFUDC no longer accumulates once the capital costs are placed in rate base, recovery of the return component after that date will be lost unless the Commission authorizes SoCalGas to place the return in the memorandum account."

Under current ratemaking practice, a utility

> "does not cease to earn a return on a project from the moment it becomes used and useful and AFUDC stops. The traditional ratemaking procedure recognizes that a stream of projects will be coming on line during the test year and accordingly allows the use of weighted average rate base to compute a utility's investment. The weighted average rate base includes projects that will come on line during the test year. This is achieved by considering plant balances by month for the test year period. Therefore, the weighted average rate base concept theoretically does not leave a time gap between the cessation of AFUDC and the plant receiving a rate of return." (D.88-09-020, p. 42.)

The weighted average rate base concept is applicable to both the test year and attrition years. For example, in SoCalGas' 1991 attrition year the utility is authorized to make plant additions of approximately $145 million, and these additions will be recognized in rates. SoCalGas has not alleged, much less proven, that the capital additions for the new headquarters, if placed in rate base in 1991, will cause it to exceed the total weighted average rate base in this attrition year.

On the other hand, if a utility is not allowed to place a cost in rate base, it cannot begin to earn a return on that capitalized cost. In the case addressed by D.88-09-020, Pacific Gas and Electric Company (PG&E) was expressly barred from placing certain capital expenditures in rate base prior to a Commission decision. Recognizing that if PG&E could not place these costs in rate base, it could not earn a rate of return, the Commission authorized PG&E to place these capital costs in an interest-bearing memorandum account. In the instant case, SoCalGas is similarly barred from placing the capital costs associated with the new headquarters in rate base until the Commission has approved these costs. In D.88-03-075 we held:

> "4. . . . SoCalGas must justify in a future general rate case proceeding the cost of its new headquarters facility before the Commission will allow the costs for this facility to be recovered through rates."

Because SoCal Gas may not place the costs of the new headquarters in rate base until the Commission has approved these costs, we agree with SoCalGas that the memorandum account authorized by D.91-04-028 should not exclude capital costs. Therefore, we will modify D.91-04-028 accordingly.

Therefore, good cause appearing,

IT IS ORDERED that subdivision (a) of the Ordering Paragraph in Decision 91-04-028 is modified to read:

a. SoCalGas may record in the memorandum account only those expenses which are included in A.88-12-047,

This order is effective today.

Dated August 7, 1991, at San Francisco, California.

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

Commissioner Daniel Wm. Fessler, being necessarily absent, did not participate.

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

Neal J. Shulman

NEAL J. SHULMAN, Executive Director