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ORIGINAL

Decision No. 87639 JUL 19 1977

BEFORE THE PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

In the matter of the application of SAN DIEGO GAS & ELECTRIC COMPANY for authority, among other things, to increase its rates and charges for electric service.	Application No. 55627 (Filed April 16, 1975)
In the matter of the application of SAN DIEGO GAS & ELECTRIC COMPANY for authority, among other things, to increase its rates and charges for gas service.	Application No. 55628 (Filed April 16, 1975)
In the matter of the application of SAN DIEGO GAS & ELECTRIC COMPANY for authority, among other things, to increase its rates and charges for steam service.	Application No. 55629 (Filed April 16, 1975)

(Appearances are listed in Appendix A.)

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O P I N I O N

I. Rate Increase Request

By three applications filed April 16, 1975 San Diego Gas & Electric Company (SDG&E) requested gross revenue increases in the total amount of $119,463,900 (28.7 percent) based upon 1976 test year estimates. Concurrently with its filing of its applications, SDG&E filed a petition for interim relief requesting gross revenue increases of $78,525,300. SDG&E alleged a financial emergency requiring immediate rate increases.

History of the Proceedings

Prehearing conference was held on June 2, 1975 and subsequently 16 days of public hearings were held from June 25, 1975 through July 25, 1975. By Decision No. 85018 dated October 15, 1975 the Commission granted emergency interim rate relief. SDG&E was authorized to increase its rates in the amount of $27,200,000 annually. The financial emergency was based on the fact that SDG&E's 1975 net operating revenues were too low to meet the interest coverage requirements of outstanding debenture indentures. SDG&E was unable to issue mortgage bonds to meet its financial requirements.

Further prehearing conference was held on November 24, 1975. SDG&E requested that further proceedings be divided into two phases. SDG&E was seeking additional rate increases by March 1, 1976 based on the allegation that the company was facing a continuing financial emergency. SDG&E proposed that a rate increase be granted after early hearings on the rate of return requirement and estimated 1976 results of operations. A second series of hearings was to be reserved for additional significant controversial issues. The request to phase was granted.

SDG&E's rate increase request was reduced to $67,856,300 after the interim rate increase. Fifteen days of expedited hearings were held from December 22, 1975 through February 23, 1976 (Phase I).

On December 30, 1975 SDG&E was authorized to increase its fuel cost adjustment billing factor by 0.762 cents per kilowatt-hour to meet increased fossil fuel costs (excluding certain lifeline quantities). The annual revenue increase was estimated as $20,051,800. The order provided for separate accounting and refunding to the extent rates exceeded fossil fuel expense (Decision No. 85291 dated December 30, 1975 in Application No. 56049 filed November 6, 1975).

The expedited Phase I proceedings were terminated February 23, 1976 by the hearing examiner. At that time it was apparent to all parties that SDG&E's recorded monthly earnings were too high to support a claim of financial emergency. Moreover, the high recorded monthly earnings did not include substantial fuel clause revenues which were refundable because fuel cost revenues exceeded expenses. The applicant was directed to prepare additional exhibits setting forth its revised rate increase request. The proceedings were dephased and the matter was taken off calendar.

Hearings on all issues commenced on June 8, 1976. SDG&E's revenue increase request (revised) was $49,400,000 annually. Twenty-nine days of public hearings were held from June 8, 1976 through September 28, 1976 before Examiner Charles E. Mattson and Commissioner Batinovich.

The matter was submitted subject to late-filed Exhibits 197 and 198 which have been filed. The entire proceedings covered 60 days of hearings. Hearings were held for members of the general public, including evening sessions on August 4 and 5, 1976. Concurrent opening briefs were mailed October 29, 1976 and closing briefs were mailed November 15, 1976. Briefs were filed by the applicant, the Commission staff, Western Mobilehome Association (Western), the city of San Diego (City), and the Secretary of Defense (DOD) on behalf of all executive agencies of the United States. Evidence was presented by the San Diego Energy Coalition (SDEC), the Rancho Bernardo Homeowners Corporation (Bernardo), Golden State Mobilehome Owners League, and the Valley Center Municipal Water District.

Late-filed Exhibits Nos. 197 and 198 are received in evidence. The transcript corrections requested by the staff by letters dated September 23, September 24, and October 19, 1976 are allowed as corrections of our record. The matter is ready for decision.

II. Major Common Issues

Preliminary Discussion

There are three major issues in dispute which are common to all three departments of SDG&E (electric, gas, and steam). These issues involve SDG&E's request to include 50 percent of interest-bearing construction work in progress (CWIP) in 1976 rate base, the treatment of additional investment tax credit (ITC) available to SDG&E under provisions of the Tax Reduction Act (TRA) of 1975, and the proper rate of return to be used in estimating the 1976 revenue requirements of SDG&E.

Current accounting procedures allow SDG&E to accumulate interest charges on CWIP as an allowance for funds used during construction (AFDC). AFDC also appears as a credit to earnings during the construction period. The AFDC associated with a plant addition is transferred into plant accounts and included in rate base when construction is completed. SDG&E's request is to include one-half of its CWIP in rate base and to discontinue the AFDC for such CWIP. SDG&E's inclusion of one-half of CWIP in 1976 rate base would require increased net operating revenues of approximately $9 million annually.

The TRA of 1975 increased the ITC available to SDG&E. The act provided options for treatment of the additional credit. SDG&E elected to take immediate credit to income taxes and to flow through the credit on a pro rata basis over the life of the property for ratemaking purposes (ratable flow-through). SDG&E could have elected an immediate flow-through of the full amount of the credit (full flow-through). Full flow-through of the tax credit in 1976 would have reduced gross revenue requirements by $8,559,000 below the level obtained by use of ratable flow-through.

On February 23, 1976 the applicant requested an interim decision establishing the reasonable rate of return for 1976. The parties filed concurrent opening and reply briefs in March 1976 on (1) whether a decision should issue on such separate rate of return and (2) what rate of return should be authorized. By letter dated May 28, 1976 the presiding examiner denied the request for an interim decision on rate of return.

On February 18, 1976 the City filed a petition for an interim rate reduction of $27,200,000 (the amount of the earlier interim rate increase) based on excessive earnings. The City contends that SDG&E's 1976 return will exceed a reasonable rate of return allowance. This decision will establish base rates designed to allow SDG&E an opportunity to achieve a reasonable return based on adopted 1976 results. We will resolve the City's petition for rate reduction by establishing base rates to produce a reasonable rate of return based on our 1976 test year results.

The utility and staff 1976 estimates for all departments are set forth in Table 1 below. The estimates in Table 1 exclude Energy Cost Adjustment Clause (ECAC) revenues and energy cost expense for the electric department. Present recorded electric revenues include fuel clause adjustment rates. The present fuel clause charges will be superseded by the initial ECAC rates established by this decision. The ECAC procedure incorporates a balancing account so that over- or undercollection of actual energy costs are included in ECAC rates at six months' intervals.

Table 1

San Diego Gas & Electric Company

Summary of Earnings
(Year 1976 Estimated)

(Electric, Gas, & Steam Departments)

Item	Present Rates: Staff	Present Rates: Utility
	(Dollars in Thousands)	
Operating Revenues		
Sales to Customers-Basic	$270,915.5	$268,637.3
Interdept. Sales Adjusted	1,268.6	1,268.6
Miscellaneous	5,649.8	5,649.8
Total Oper. Revs.	277,833.9	275,555.7
Operating Expenses		
Base Fuel or Gas Supply	58,536.7	58,179.2
Production	14,991.2	15,427.9
Storage	650.3	650.3
Transmission	5,079.8	5,079.8
Distribution	20,648.5	20,648.5
Customer Accounting & Collecting	11,394.5	11,385.9
Marketing	2,042.2	2,042.2
Admin. & General	29,902.6	29,836.8
Franchise & Uncol. Costs in ECAC	(1,336.9)	(1,443.1)
SWP Revenue Offset	751.9	751.9
Subtotal	142,660.8	142,559.4
Adj.-Employees Not Rehired	(706.9)	(706.9)
Wage Adj. for 1976	224.5	224.5
Adj.-Employees to be Rehired	(215.6)	.0
Subtotal after Wage Adj.	141,962.8	142,077.0
Depreciation - Book	31,038.8	31,038.8
Taxes other than Income	20,128.6	20,128.6
State Franchise Tax	2,849.9	2,428.1
Taxes Based on Income	7,380.8	7,128.1
Total Oper. Exps.	203,360.9	202,800.6
Net Oper. Revs. Adj.	74,473.0	72,755.1
Rate Base	791,777.7	805,674.3
Rate of Return	9.41%	9.03%

(Red Figure)

It is important to understand that existing fuel cost overcollections under the previous clause are not part of SDG&E's operating revenues and that these overcollections will be otherwise disposed of. ECAC rates will normally be adjusted March 1 and September 1 of each year. Initial ECAC rates established by this decision are based on the calendar year 1976. The fuel cost revenues exceeded expenses by approximately $13,064,476 for the 12 months ending August 31, 1976, including interest to December 31, 1976.

A. Construction Work in Progress

Under present accounting practice utility plant is included in rate base when construction work is completed and the plant is placed in service. The cost of the utility plant when placed in service includes plant construction cost such as labor, materials, and overheads as well as the interest paid on borrowed funds during the period of plant construction. This latter item is an interest charge which is includable in construction costs as AFDC. As AFDC is added to CWIP during a construction period, the AFDC amounts are reflected as other income.

The Finance witness Czahar reported that if AFDC is used properly the income statement will accurately reflect the results of current operations, exclusive of the capital cost associated with construction expenditures. The staff witness stated that the capitalization of AFDC is a generally accepted utility accounting practice.

SDG&E proposes to include 50 percent of its 1976 CWIP in the test year rate base and discontinue the practice of capitalizing AFDC on this amount. For the test year applicant proposes to include $94 million of CWIP in rate base. The immediate result is improved cash flow to the utility with increased revenues resulting from the recognition of a larger amount of rate base. The ratepayer's cost can be measured by the increased revenue requirement at any assumed rate of return allowance. The utility would benefit from the immediate revenue gain in contrast to the present capitalization of AFDC which results in non-cash credits to "other income" during the construction period. Under the present treatment, the ratepayer's costs are reflected in the increased revenue requirements resulting from the capitalized AFDC after the plant is included in rate base. These increased costs are recovered over the life of the associated plant.

Staff witness Czahar concluded that the specific result of including \$94 million of CWIP in rate base would generate \$7.2 million per year or \$21.5 million over a three-year construction period. The result of capitalizing AFDC on the same \$94 million of CWIP over a three-year construction period would result in the generation of between \$54.7 million and \$65.4 million in additional cash flow over the 30-year to 40-year operating life of the plant. When the two alternatives were compared on a present value basis, the staff witness concluded there was substantially no cost difference between the two methods. The staff compared the cost to the ratepayer of including CWIP in rate base against capitalizing AFDC. On a present value basis the ratepayer gained an advantage by including CWIP in rate base at discount rates below 9 percent. At discount rates exceeding 9 percent the inclusion of CWIP was the more costly alternative. Stated another way, as the present value of money to ratepayers increases, the inclusion of CWIP in rate base becomes less advantageous. When the rate of 9 percent is used, it is more advantageous to the ratepayers to capitalize AFDC.

There was no substantial dispute over the staff analysis of the cash benefits and burdens of capitalizing CWIP. Moreover, the staff position is that on theoretical grounds capitalizing AFDC is, both in an accounting and regulatory sense, the best method of allocating the cost of capital to the proper period and compensating investors for the use of capital invested in plant under construction. Ratepayers receiving the benefit of the use of utility plant (including capitalized AFDC) pay for their use. There is no reason to assume present ratepayers will benefit from plant presently under construction. Moreover, the regulatory principle that rate base should be represented by the net cost of the utility plant presently used in supplying service to customers rather than the amount of dollars represented by the capital structure of the utility clearly avoids the manifest problem of determining the propriety of the actual capital structure on the books of the utility.

Applicant's case for inclusion of CWIP in rate base is based on necessity. Applicant alleges that almost one-half of SDG&E's 1976 third quarter earnings per share were AFDC "paper earnings" with no present cash flow. By including CWIP in rate base, SDG&E will increase cash flow and be in a stronger financial position since increased cash flow will offset, in part, the necessity of obtaining additional capital. Another measure of the necessity of improving cash flow is the ratio of internally generated funds to construction expenditures. Applicant's witnesses urge that internally generated funds should be 30 percent of construction expenditures as a minimum to secure upgrading of the company's bonds.

The financial emergency which faced SDG&E in 1975 arose because the utility could not meet the interest coverage requirements of its outstanding debenture indenture, a requirement that must be met before new debt can be issued. The interest coverage required is before tax earnings of at least two times SDG&E's total charges for long-term debt interest (including annual charges for the new issue). The earnings used in the requirement are recorded earnings in a recent 12-months period. The use of "other income" as revenue in the coverage calculation is restricted to 10 percent of total earnings available for coverage. The preceding brief outline of SDG&E's interest coverage requirement is basic to another argument of SDG&E. The interest coverage position of SDG&E is improved when AFDC is reduced and utility earnings increase when CWIP is included in rate base. The utility has had AFDC revenue excluded from the coverage calculation by the 10 percent restriction. Moreover, since coverage is calculated before income taxes, coverage improves from the associated taxes on the increased revenue requirement.

The utility presented expert testimony to support its claim that its proposal would raise bond interest coverage to 2.6 times and this would be sufficient to result in upgrading of the company's bonds. A benefit to the ratepayer, it is argued, would flow from the lower interest costs of future debt issues because improved bond ratings result in lower interest requirements. SDG&E urges that its current bond rating by Moody's (Baa) and Standard and Poor's (BBB) are so low that it is difficult for the company to raise capital at reasonable rates. Moreover, in tight money markets it is increasingly difficult to market lower rated bond issues.

The staff accepted the utility's claim that SDG&E's financial position would be improved by inclusion of CWIP in its rate base. The staff also recognized that when CWIP becomes so large as to cause AFDC to become the major source of net income and when cash flow, interest coverage, and potential investor's confidence in the quality of earnings decrease to levels that threaten the financial viability of the utility, theoretical considerations must give way to practical solutions.

Staff witness Czahar accepted SDG&E's premise that the requested ratemaking change for CWIP might be necessary. The staff analysis was that cash flow and interest coverage will remain at adequate levels in the near future without CWIP in the rate base. The analysis also indicated that projected capital expenditures for new plant construction would cause marked deterioration of SDG&E's financial condition beyond 1977. By 1978 CWIP could compose almost 30 percent of SDG&E's capitalization based on projected construction expenditures. The staff witness pointed out that the basic problem resulted from the projected construction requirements not AFDC accounting. CWIP in rate base or increased common equity allowances are alternative solutions.

We assume that financial problems anticipated from the projected construction expenditures will face us again. We agree with the staff's opinion that increasing the equity allowance solely to support large construction projects may be undesirable in the future. Equity allowances could exceed actual cost of equity capital based on just and reasonable standards. The actual operating costs of new plant would be lower if CWIP was allowed in rate base. It is possible that SDG&E's requested ratemaking change of including CWIP in rate base and eliminating capitalized AFDC would result in a lower revenue requirement in the future if the alternative is simply raising the allowance on common equity.

It is obvious that other alternatives must be pursued—alternatives that go directly to meet the basic problem. If effective conservation programs could slow load growth, timing of construction expenditures could be altered. Stability in average energy use per customer is an essential goal of a conservation program designed to lower load growth. The financial costs of meeting the estimated generation requirements are too clear.

Other alternative financing must be explored and pursued with vigor by SDG&E. The staff report reviews construction project financing, leasing, and employee stock option plans, all of which appear viable as SDG&E has improved its financial position. We know only too well that the ratepayer will ultimately bear the cost of service in utility rates. At this time we do not find it necessary to include CWIP in rate base.

B. Investment Tax Credit - Tax Reduction Act of 1975

Applicant and the staff differ substantially in the effect of the TRA of 1975 on the estimated 1976 federal income tax of applicant. The problem arises from the increased amounts of ITC which became available January 21, 1975. Decision No. 85627 dated March 30, 1976 involving two SDG&E application matters (Applications Nos. 55677 and 55543) sets forth in detail the background of the ITC dispute.

Prior to 1975 SDG&E had calculated its federal income taxes for ratemaking and federal tax purposes by reflecting immediate use of the full amounts of available income tax credits. The TRA of 1975 increased the available ITC for public utility property from 4 to 10 percent on distribution property. There is no dispute regarding the tax credits available for gas transmission property and for leased vehicles. The dispute arises over the increased tax credits which became available for distribution property of SDG&E as a result of the TRA of 1975.

SDG&E, as a taxpayer, exercised its option (provided under the TRA) by electing to treat the additional ITC for distribution property as an immediate credit to federal taxes which for ratemaking purposes is flowed through on a pro rata basis over the life of the property (ratable flow-through or Option 2). This is distinguished from the other available option where the federal income tax actually paid is reduced by the full amount of available tax credit and the tax computation for ratemaking purposes includes the same tax credit. Under ratable flow-through (Option 2) the reduced tax liability resulting from the ITC is spread over the estimated life of the plant, approximately 30 years. The result is that the cost-of-service calculation for ratemaking purposes results in payment by the ratepayers for federal income tax expense not incurred in the test year.

It is obvious that the election of ratable flow-through increases internal cash flow, decreases the need for external debt or equity financing, and leaves cash available to meet capital requirements. The record in our proceeding shows that SDG&E's election of ratable flow-through results in increasing gross revenue requirements in excess of $8.5 million and results in increased federal income tax expense of $3,961,000 for ratemaking purposes.

SDG&E selected Option 2 at a time when there was an apparent financial emergency which subsequently required interim rate relief (Decision No. 85018 dated October 15, 1975).

SDG&E has secured the advantages of the additional investment tax credits available by its election of Option 2. Those benefits clearly operate to reduce the financing requirements and thus the financial risks of SDG&E. The appropriate place to reflect reduced financial risk is in the determination of a fair and reasonable rate of return. Obviously, both the increased financial risks associated with construction financing involved in the CWIP issue and the financial advantages of ratable flow-through are factors weighed in determining the necessary and reasonable rate of return allowance.

C. <u>Rate of Return</u>

As noted above on February 23, 1976 applicant SDG&E requested that the Commission make a rate of return determination prior to submission of the applicant's request on all other issues. By letter dated May 28, 1976 the presiding examiner denied the applicant's request for an early interim decision on the sole issue of rate of return.

When hearings resumed in June 1976 applicant did not introduce any substantial additional evidence on the issue of rate of return. The staff revised a table in its rate of return exhibit in order to update capital ratios and costs in applicant's capital structure. The City introduced Exhibit 161, a substantial revision of its rate of return recommendation. Exhibit 176 presented on behalf of Bernardo included a rate of return recommendation.

The cost of capital estimated for 1976 by the applicant appears in Exhibit 77 bearing a date of October 1975. Applicant did revise page 14 on cost of capital estimates, as set forth in Exhibit 77. The capital ratios and costs, assuming a 16.0 percent return on common equity, are as follows:

Rate of Return

Cost of Capital[1/]
Projected 1976

Component	Capital Ratios	Cost Factor	Weighted Cost
Long-term Debt	51.5	7.89	4.06
Preferred Stock	17.6	8.37	1.47
Common Equity	30.9	16.00	4.94
Total	100.0%		10.47%

1/ SDG&E estimates. Exhibit 77, revised page 14.

The staff revised its capital ratios and costs to reflect the most recent information as of August 15, 1976. The estimated staff capital ratios and costs are as follows:

San Diego Gas & Electric Company

Recommended Range for Rate of Return1/

	Capital Ratio	Cost Factor	Assumed Earnings Rates on Common Equity 12.75%	12.88%	13.00%	13.12%
			Weighted Cost			
Long-term Debt	51.00	7.67	3.91	3.91	3.91	3.91
Preferred Stock	15.33	7.84	1.20	1.20	1.20	1.20
Common Equity	33.67		4.29	4.34	4.38	4.42
Total	100.00%		9.40%	9.45%	9.49%	9.53%

1/ Table No. 28-A of staff's Exhibit 89, revised August 15, 1976 by Exhibit 175.

The City introduced its estimated capital costs as follows:

Rate of Return1/

Component	Capital Ratios	Cost Factor	Weighted Cost
Long-term Debt	51.88	7.67	3.98
Preferred Stock	15.23	7.84	1.19
Common Equity	32.89	10.88	3.58
Total	100.00%		8.75%

1/ City's Exhibit 161, page 9.

For reasons set forth below, the City argues that the 8.75 percent rate of return last authorized SDG&E should now be reduced to 8.50 percent.

Witness Kyle on behalf of Bernardo recommended an overall rate of return range for applicant of 9.16 percent to 9.28 percent. This recommendation is based on a range for return on common equity of 12.14 percent to 12.51 percent.

The updated capital costs and estimated ratios of the staff are more accurate than the earlier estimates by the applicant. In its final reply brief dated November 15, 1976, SDG&E states that in the light of changes in the cost of capital since this case was initiated 19 months ago, the company must acknowledge that 16 percent is no longer necessary (as a return on common equity).

The City's capital ratios vary from the staff's. The actual impact on rate of return of these differences at witness Kyle's recommended highest equity allowance of 12.51 percent is 0.04 percent (the City is 9.28 percent, the staff is 9.32 percent). Clearly, the substantial dispute involves the proper allowance for common equity.

Common Equity Allowance

In our last review of capital costs of SDG&E in Decision No. 83675 dated October 29, 1974, we adopted the following capital ratios and costs:

Component	Capital Ratios	Allowance or Cost	Weighted Cost
Long-term Debt	49.82	6.78	3.38
Preferred Stock	16.81	7.38	1.24
Common Equity	33.37	12.38	4.13
Total	100.00%		8.75%

It is apparent that the cost of debt and preferred stock in SDG&E's capital structure has increased approximately 10 percent from 1974 to 1976. Unless the authorized rate of return is increased to reflect the increasing fixed costs, the result will be a reduction of the common equity allowance and a reduction of the interest coverage in the financial ratios. The difficulty with ignoring the reduction of the interest coverage is that earlier in these proceedings we found a financial emergency arising from the fact that the applicant was unable to issue any long-term debt because of its inadequate interest coverage. Moreover, the emergency interim rate relief was not limited by our 1974 rate of return authorization but was based upon our allowance for common equity of 12.38 percent. At present capital costs (staff) a 12.38 percent allowance for common equity would require a 9.28 percent rate of return. Under such circumstances, we find that SDG&E's 1976 rate of return has exceeded our earlier authorized rate of 8.75 percent. At this time rates should be based upon a reasonable rate of return allowance under current conditions established by our record.

Rate of Return Requested by SDG&E

Applicant filed its original briefs on the issue of rate of return in March 1976. At that time SDG&E requested an early determination of rate of return and requested that the Commission adopt a 16 percent allowance for common equity and an overall rate of return of 10.47 percent. Applicant did not review the issue in its closing brief. SDG&E's final reply brief dated November 15, 1976 concedes that its requested allowance for common equity of 16 percent is "no longer necessary". Applicant alleges that the rate of return levels recommended by other parties would force SDG&E into a financial crisis and that the staff's recommended 13.12 percent common equity allowance "ignores the unique problems of size and growth faced by the Company". (SDG&E's reply brief dated November 15, 1976, pages 5-6.)

Rate of Return Recommendations of City and Bernardo

The recommendations on rate of return by Bernardo and the City appear to be based on the proposition that the return to the equity owners should be commensurate with returns on investments in other enterprises having corresponding risks. The City's witness recommends an authorized rate of return of 8.50 percent. The City's allowance for common equity would be 10.12 percent. The witness for Bernardo recommended an allowance for common equity of 12.14 percent to 12.51 percent and an overall rate of return of 9.16 percent to 9.28 percent.

The recommended allowance for common equity of Bernardo was derived from two separate calculations. The 12.14 allowance for common equity is the 1975-1976 average for 95 utility companies as set forth in an exhibit of applicant. The 12.51 percent allowance is the average return on common equity for 1975-1976 for 16 utilities stated to be of a type and size comparable to applicant.

We cannot accept the premise of Bernardo that the historical average return experienced by groups of other utilities should now determine the appropriate return for the applicant. There is no analysis of the comparability of the utilities involved. Differing risks, differences in capital costs and capital requirements, and differing operating characteristics could result in the mathematically derived return being either too high or too low for any particular utility.

The recommendation of the City is to reduce the allowance for common equity from 12.38 to 10.12 percent. The City relies on earnings-price and dividends-price ratios to support its recommendation. The City contends that the cost of equity money is declining based on its analysis of current money market conditions. For example, the City's trended earnings rate on common equity (40 company average) based on 1970-1974 data comes out to a range of 9.14 to 10.89 percent when projected to 1976. (Exhibit 161, Table 3.)

We agree with the staff's contention that calculations based on earnings-price ratios result in a restricted view of the subject of rate of return. (Staff's opening brief dated October 29, 1976, pages 9-10.) City's calculations trend the appropriate allowance for equity below the current cost of long-term debt. The City's witness contends that the relative cost of bond and common stock money has changed (i.e., bond interest cost now exceeds dividend yield). This change, according to the City's witness, is because fixed income securities are not a good hedge against inflation but common stock may be, for with stock you get some advantages from plowed-back earnings that may be building future earnings and dividends.

Assuming the City's explanation of the current bond-common stock markets relationship is correct, we cannot conclude stock market values establish applicant's earnings requirements. We reject this contention. (Just as we reject the use of book value as an index for setting rates.) The explanation assumes current purchasers of stocks are anticipating advantages over fixed income securities from future earnings of common stock. If this assumption is correct it does not support the proposition that past earnings and present sales prices represent the investor's future earnings requirement. Moreover, the financial requirements of SDG&E cannot be determined solely by reference to current financial market conditions, particularly if such market conditions reflect investors' future expectations.

The City's recommended rate of return includes a 0.25 percent reduction to reflect the advantages secured by SDG&E from the additional ITC available from the TRA of 1975. The financial advantages to SDG&E from such increased ITC and its election of ratable flow-through must properly be taken into account in our rate of return determination for a utility. However, the effect of this factor on a rate of return authorization is not merely a computation applied without regard to other factors. We find that SDG&E's financial requirements cannot be assumed to be identical to other utilities under our jurisdiction. The City's treatment of this matter is not persuasive.

The Staff Rate of Return Recommendation

The rate of return recommended by the staff is 9.40 to 9.53 percent. This recommendation is based upon the Finance Division study (Exhibit 89). Staff witness Czahar testified that the recommended allowance for common equity (12.75 to 13.12 percent) would produce interest coverage on long-term debt of 2.39 to 2.42 times. The staff's recommended return is based upon an application of tests of comparable earnings, financial integrity, and the balancing of investor and consumer interests. For the reasons set forth below, we conclude that the staff has applied these traditional tests in a reasonable fashion.

A comparison of earnings test involves an examination of earnings (achieved and authorized) of other utilities. The staff reviewed both recent returns on common equity and past five-year earnings on average common equity for comparison purposes. The staff concluded that its 12.75 to 13.12 percent allowance for equity is in line with the current returns examined. Moreover, the staff recommendation was compatible with allowances on common equity currently authorized by various state regulatory commissions. The staff witness stated that such comparisons are merely a guide in the application of informed judgment. The City analyzed the staff's data by projecting 20 company equity earnings with a least squares trend line (using 1970 through 1974 data). The trend was down and the projected 1976 return was 9.14 percent. We cannot accept each trending as indicative of future utility earnings requirements. No evidence supports an assumption that recent earnings levels will (or should) decline sharply.

The staff applied the financial soundness test by an analysis of recent capital costs and coverages of SDG&E. The staff found that available coverage from earnings for capital costs, interest on debt, preferred stock dividends, and common stock dividends decreased yearly from 1970 through 1974. In 1975 interest coverage dropped below the level required to support the issuance of new long-term debt and we found a financial emergency existed. The staff's recommended return is designated to produce a 2.39 to 2.42 times interest coverage after taxes without inclusion of other income credits. The City's recommended 8.50 percent return would produce a 2.14 times interest coverage.

The last authorized rate of return of 8.75 percent was estimated to produce after-tax interest coverage of 2.59. The staff does not recommend increasing the allowance on equity to approximately 15 percent--the level required to maintain interest coverage of 2.59 at present capital costs and ratios. The staff recommends that SDG&E increase its equity ratio for a continued erosion of equity could result in raising the equity allowance to astronomical levels to maintain reasonable debt coverage. We agree with the staff's view that an allowance for equity capital, although influenced by the amount and cost of debt in a capital structure, must be intrinsically reasonable and fair in itself.

As noted above, the City's recommended rate of return would appear to result in debt interest coverage of 2.14 in 1976. The City has not presented an analysis of the financial condition of SDG&E under such a return. The City has argued that the utility would be able to issue new debt into 1977 based on its current earnings levels. This argument ignores the fact that such projected financial health is based on past earnings levels in excess of 8.50 percent and does not measure the impact of the annual effect of the lower earnings level recommended by the City. Based on recent and projected capital requirements of SDG&E it appears that the City's recommended return would not support anticipated capital requirements in a reasonable fashion. The City's position appears to be that the utility should apply to the Commission for increased rates if and when it is in financial need. This is unreasonable. This Commission sets rates for the future. If the evidence supports an increase (or reduction), then rates will be set accordingly. We cannot conclude that a utility must demonstrate a current financial emergency before an increased rate of return is justified.

Balancing of Consumer and Investor Interests

The staff reviewed the general impact of recent economic conditions upon both the consumers and investors. The mortgage bonds of SDG&E are rated for investors by Standard & Poor's and Moody's. These rating agencies have reduced their ratings of SDG&E's first mortgage bonds from Aa to BBB and Baa, near the bottom of the rating scale. Such bonds pay a higher interest rate and have limited marketability. This situation directly affects SDG&E's ability to attract new capital at lower costs. The cost of new stock issues is related to these ratings. The utility urges that higher earnings levels should be authorized to increase its ability to attract new capital.

Consumers have been subjected to rapid increases in utility rates as a result of inflation. Increasing energy costs have been and will be reflected in the rates. The higher capital costs incurred by SDG&E have resulted in constant increases in the authorized rate of return and this increasing cost is reflected in utility rates. Under the circumstances, the staff does not support increases in the rate of return to levels approaching those in nonregulated industries to increase interest coverages or in the hope of improving the market price of securities. We agree with the staff that there is no assurance of success in the case of market prices.

Our conclusion is that a rate of return of 9.50 percent should be authorized at this time. The utility will be effectively insulated from energy cost changes by the ECAC tariff, which is an additional burden on ratepayers. The utility has the financial advantages resulting from its ITC election under the TRA of 1975. The staff estimated that a 9.50 percent rate of return should meet SDG&E's current capital requirements. This is the highest foreseeable rate of return and is based on an expectation of aggressive conservation and efficient operation. Before we will allow a further increase in rate of return, we will expect the utility to show that it has done all that it can to keep costs and growth under control.

Our authorized rate of return will not solve all possible future problems facing SDG&E. Specifically, the staff recognized that if the capital construction estimates of the utility are accurate, large amounts of new capital may be required in the near future. The staff concluded that the alternatives may be to include CWIP in the rate base or to increase the rate of return on common equity to extremely high levels. Either solution will obviously result in increased rates, and we expect SDG&E to offer other alternatives. We do not find it necessary to burden the ratepayers with such anticipated future costs at this time.

III. Consolidated Summary of Earnings - Comparisons

By late-filed exhibits the staff and SDG&E set forth their estimated summary of earnings for the year 1976 at present rates. A comparison of the staff's and utility's estimates is set forth in Table 1 for all departments of SDG&E. It should be noted that this table sets forth the effect of including 50 percent of CWIP in rate base as requested by the utility. As set forth in our earlier discussion, we are not prepared to burden the present ratepayers by including CWIP in rate base.

The differences between the staff and the utility which result from differing treatment of CWIP and ITC have been resolved by our earlier discussion of those issues. The remaining differences reflected in the summary for all departments flow from issues which involve the separate departments. Accordingly, we will set forth the summary of earnings for each department and set forth adopted results at present rates for separate departments. Where the parties to the proceeding disagree with the staff's and the utility's estimates, we will include the presentation and position of such interested party in our consideration of such estimate.

IV. Summary of Earnings - Electric Department

Table 13-A of Exhibit 197 sets forth the summary of earnings for the electric department. Table 13-A is set forth herein (omitting rate base of 50 percent CWIP) as Table 2.

A. Operating Revenues

The revenues reflected in Table 2 have been reduced to remove the revenues and expenses associated with fuel and purchased power. The reason that both fuel revenues and fuel costs are removed from our estimates is that the ECAC will automatically be adjusted to balance fuel cost charges and fuel expenses. Past and future fuel cost over- or undercollections will be incorporated in the charges to ratepayers for energy costs.

Table 2

San Diego Gas & Electric Company

Summary of Earnings
(Year 1976 Estimated)

(Electric Department)

Item	Present Rates: Staff	Present Rates: Utility	Present Rates: Adopted
	(Dollars in Thousands)		
Operating Revenues			
Sales to Customers-Basic	$172,830.0	$171,867.7	$169,762.2
Miscellaneous	5,265.6	5,265.6	5,265.6
Total Oper. Revs.	178,095.6	177,133.3	175,027.8
Operating Expenses			
Base Fuel or Gas Supply	2,915.1	3,298.9	3,008.1
Production	14,911.9	15,348.6	14,911.9
Transmission	4,269.3	4,269.3	4,269.3
Distribution	12,779.0	12,779.0	12,779.0
Customer Accounting & Collecting	7,143.9	7,138.3	7,136.3
Sales Expense	1,228.4	1,228.4	1,228.4
Admin. & General	21,096.5	21,061.0	21,036.6
Franchise & Uncol. Costs in ECAC	(1,336.9)	(1,443.1)	(1,336.9)
SWP Revenue Offset	751.9	751.9	751.9
Subtotal	63,759.1	64,432.3	63,784.6
Adj.-Employees Not Rehired	(580.8)	(580.8)	(580.8)
Wage Adj. for 1976	154.0	154.0	154.0
Subtotal After Wage Adj.	63,332.3	64,005.5	63,357.8
Depreciation - Book	24,824.9	24,824.9	24,824.9
Taxes other than Income	16,005.5	16,005.5	16,005.5
State Franchise Tax	2,700.3	2,406.2	2,620.4
Federal Income Tax	7,419.0	7,565.9	7,986.8
Total Oper. Exps.	114,282.0	114,808.0	114,795.4
Net Oper. Revs. Adj.	63,813.6	62,325.3	60,232.4
Rate Base	666,514.6	680,243.2	680,045.4
Rate of Return	9.57%	9.16%	8.86%

(Red Figure)

The adopted operating revenues are based on the utility's estimate of use per customer adjusted to reflect more current data. We adopt this lower estimate as the best available test year results because of the level of conservation apparently achieved to date and our ongoing emphasis on continued conservation. This determination is supported by the current circumstances regarding the drought with the resulting electrical shortage in California.

B. Base Fuel-Gas Supply Expense

The Commission staff and the utility differ in the estimated base fuel expenses by $383,800. This difference arises because the utility includes $383,800 representing annual amortization over a five-year period of accrued net salvage value of spent nuclear fuel.

The company's claim is based upon the fact that salvage value was accrued in the past on the assumption that the salvage value in spent fuel would produce uranium after reprocessing. Currently there are no reprocessing plants in operation in the United States for spent fuel, and construction of reprocessing facilities will not commence until the Nuclear Regulatory Commission (NRC) establishes design criteria for such a facility. Estimates establish that at the present time reprocessing costs will far exceed the uranium salvage value. Under existing circumstances utilities do not accrue salvage value for nuclear fuel. However, SDG&E has accumulated $1,918,848 of net salvage values for spent fuel. It is this accrued amount that SDG&E seeks to amortize over a five-year period.

The Commission staff evaluated the problem concerning reprocessing of spent nuclear fuel. Other utilities in California also have accrued salvage value for spent uranium. The staff reported that Pacific Gas and Electric Company (PG&E) expects to be able to have spent nuclear fuel reprocessed in the future and PG&E is not asking for a change in accounting treatment at this time. Southern California Edison Company (SCE) owns 80 percent of the nuclear fuel which SDG&E wishes to amortize. SCE indicated they have discontinued accruing salvage value for the spent fuel and that they are maintaining the accrued salvage balances at present levels until more definitive information is available.

The testimony of the staff witness indicated a basic disagreement between the staff and SDG&E in the proper accounting for the salvage value of spent nuclear fuel. SDG&E's position was that under the Uniform System of Accounts definition of net salvage, net salvage value means the salvage value of property retired reduced by reprocessing costs necessary to obtain such salvage value. The staff position was that under the applicable Uniform System of Accounts net salvage is the salvage value less removal costs. The staff distinguished between removal cost and reprocessing cost.

The staff took the position that it had recommended that SCE cease charging to expenses the estimated cost of reprocessing spent nuclear fuel because such accounting starts to accrue future estimated reprocessing costs of spent nuclear fuel prematurely. Reprocessing cost to be incurred in the future should be accounted for at the time of actual activities. The Commission staff contends that if reprocessing cost adds value to the nuclear fuel, such expenditures should be considered as capital investment. The staff states that accruing reprocessing costs charged the ratepayers for future capital expenditures and in effect the ratepayers had advanced money for future nuclear fuel plant.

We agree with the staff position as stated above. Consistent with the staff position, the staff had recommended that SCE cease charging estimated reprocessing cost of spent nuclear fuel on the ground that it is charging expenses prematurely to ratepayers. The staff and the utility are in agreement that SDG&E should not accrue nuclear salvage values at this time because it is currently uneconomical to reprocess spent fuel. This agreement is consistent with the staff position that reprocessing cost to be incurred in the future should be capitalized in future nuclear fuels recovered and used in the utility operations. This agreement between the staff and the utility does not resolve the problem of the accrued salvage.

The $1,918,848 in accrued salvage value of spent nuclear fuel represents, in SDG&E's view, salvage value that cannot be recovered at the present time. The spent nuclear fuel still contains 30 to 35 percent usable Uranium 235 as well as some plutonium. Exhibit 121, an earlier report of the Commission staff, recommended that the accrued values assigned to the plutonium in the spent nuclear fuel be amortized. Specifically,Account 157, Nuclear Material Held for Sale, reflected an estimated market value of $400,237 representing the estimated value of plutonium to be received after the reprocessing of the spent fuel. Account 120.5, Accumulated Provision for Amortization of Nuclear Fuel Assemblies, reflected $240,702 as the estimated cost of reprocessing nuclear fuel that was leased. The staff recommendation was that the net amount of $159,535 does not represent a realizable asset nor a valid rate base item because of the uncertainties with respect to the fuel recovery service contract, the uncertainty of commercial fuel reprocessing plant availability, and the uncertainty of the market for recovered plutonium. The plutonium in question is contained in the same spent nuclear fuel containing usable Uranium 235. The staff report recommended writing off the net salvage value of $159,535 (the net result after the assigned plutonium values are reduced by the $240,000 accrued).

The staff recognized that plutonium salvage should be treated in the same manner as other salvage values in spent fuel. The staff's final recommendation regarding the accrued salvage value for spent nuclear fuel was that SDG&E not be allowed to amortize the accrued salvage value at this time. The staff concluded that the matter should be decided when more definitive information is available regarding reprocessing plants. The staff witness argued that it would be unwise to let the company amortize accrued salvage until all possible alternatives are evaluated and that to allow amortization would tend to reduce the incentive for the company to seek out an optimum solution. The staff witness distinguished this final recommendation from the earlier recommendation contained in Exhibit 121 on the grounds that the earlier recommendations were made without in-depth study for at that time there appeared to be a small amount involved--the net amount was about $160,000.

We have concluded that the initial staff position set forth in Exhibit 121 is sound. If spent nuclear fuel is reprocessed in the future, such reprocessing costs should be capitalized as cost of reprocessed nuclear fuel used in the reactor. The conclusion that the reprocessing of spent fuel to recover plutonium is uncertain because there are no operational commercial fuel reprocessing plants available to SDG&E is undisputed. The plutonium and the uranium involved are both contained in the same spent nuclear fuel. The net value of the spent fuel (reduced by the accrued provision for amortization of future reprocessing expense as recommended by the Finance Division) should be amortized. We do not conclude that the evidence as presented by SDG&E in this case would necessarily be applicable to all spent nuclear fuel on hand for all other utilities. We note that PG&E is of the view that it has viable reprocessing contracts available. To the extent that spent nuclear fuel may have value in the future, such value will reduce the cost of nuclear fuel after reprocessing. At this time we will begin amortization of the net value of spent nuclear fuel of SDG&E.

C. Production Expense

The staff and utility differences in production expense for the electric department result from the staff's elimination of several items of expense connected with the cancelled Kaiparowits project. Moreover, the staff allowance of Kaiparowits project expenses is contingent upon a commitment by the utility that any future profits from this project would result in refunds to the customers.

On April 14, 1976 the Kaiparowits power project was cancelled. The participants in this power project were SDG&E, Arizona Public Service Company (APS), and SCE. SCE was the project manager. Applicant requests authority to amortize over a five-year period costs of $5,553,918 which it alleges represent its costs associated with the cancelled power project. The power project involved planned construction of a 3,000 megawatt coal mine mouth generating station in southern Utah and related transmission systems to provide power to southern California and Arizona.

At this time the coal resource at Kaiparowits consists of an estimated 600,000,000 tons of recoverable coal. Rights to this energy resource are held through coal leases by subsidiaries of the three participants in the power project. Equal interest in the coal resource are held by New Albion Resources Company (NARCO, SDG&E's wholly owned subsidiary), Resources Company (a subsidiary of APS), and Mono Power Company (a subsidiary of SCE). Resources Company is coordinator of the whole project. Kaiser Engineers of Kaiser Industries Corporation became a participant under a memorandum of intent agreement. As of June 30, 1976 there was approximately $1,642,305 recorded in the books of NARCO as its share of deferred exploration and development costs associated with the coal development project. SDG&E has not included these costs in its request for amortization of Kaiparowits costs.

The amounts in dispute regarding amortization of Kaiparowits costs is set forth in the following table:

Kaiparowits Cost Table

Item	Staff	Utility	Utility Exceeds Staff Amount	Utility Exceeds Staff Ratio
			(Dollars in Thousands)	
Power Plant	$2,391.6	$2,836.9	$ 445.3 1/	18.6%
Communications	40.1	40.1	-	-
Transmission	919.0	989.8	70.8 2/	7.7
Indemnification	-	1,667.2	1,667.2 3/	100.0
Total to be Amortized	3,350.7	5,534.0	2,183.3	65.2
Amount to be Amortized per Year on Five-year Basis	670.1	1,106.8	436.7	65.2

1/ Exclusion of $221.7 AFDC plus $223.6 power plant expense estimated to have future value to the mine.

2/ Exclusion of $70.8 AFDC.

3/ Exclusion of $1,667.2 indemnification payments.

The staff witness recommended the amortization of $3,350,700 over a five-year period only if certain conditions were met. Specifically, the staff witness recommended amortization only on condition that SDG&E on its own behalf and on that of its affiliate NARCO agreed to commit profits from the sale of coal or coal rights at Kaiparowits up to the total amount amortized plus accrued interest at seven percent per annum on amortized amounts. The staff witness recommended that all amortized amounts plus accrued interest be refunded to the ratepayers should profits from the sale of coal rights be realized.

The staff witness also testified that in his judgment SDG&E made a prudent choice when it originally became involved in obtaining the energy resources at Kaiparowits and the later decision to cancel the project was also a prudent one. A witness on behalf of the Finance Division recommended that SDG&E be allowed to amortize over a five-year period the reasonable costs expended on the Kaiparowits project, subject to certain exceptions and recommendations.

At this time we are going to adopt the staff recommendation, including the exclusions of certain amounts claimed by SDG&E as set forth in the table above. The claim for AFDC was disallowed by the staff on the ground that it is contrary to the Uniform System of Accounts adopted by the Commission to accrue AFDC when construction does not begin. In the view of the staff, the expenditures were of a preliminary nature and construction had not started on the power project.

The staff position that there was no interest-bearing CWIP to support AFDC is unrebutted in the record. Accordingly, the staff exclusion of $292,500 of AFDC is adopted.

The staff Finance Division investigation disclosed that the amount of $223,600 of power plant expense was regarded by SCE as a capital expenditure having future value to the mine. Applicant contends that this expenditure involved environmental studies having no value to any future development of the coal project. At this time we will adopt the staff recommendation regarding these expenditures.

The final exclusion of $1,667,200 relates to an indemnity agreement entered into between the power plant participants, their three subsidiaries, and Kaiser Industries Corporation. This agreement required reimbursement to the wholly owned subsidiaries for funds advanced for commitments made in connection with the coal project after August 20, 1974. The Finance witness testified the indemnity agreement was essentially a payment by power plant participants which contributes to the value of the assets, including coal leases and mineral claims, held by their coal project subsidiaries. The payment of these costs did not entitle the parent companies to share in the ownership of the assets. SDG&E argues that the power plant participants were required to assume financial responsibility for necessary Kaiparowits coal development under the indemnity agreement as a necessary part of the Kaiparowits power project. The staff reported that SCE had not yet determined an apportionment of the indemnity agreement payment to be assigned to the coal project and to the power project. Under these circumstances we adopt the staff position at this time.

An underlying major question involves the value of the coal resource at Kaiparowits. We agree with the staff position that if California ratepayers are to amortize the sunk costs in the Kaiparowits power project, it would be inequitable to ignore the fact that a wholly owned subsidiary of the utility continues to hold the only remaining assets from the overall project. Moreover, to the extent that ratepayers support the costs incurred by SCE's subsidiary, Mono Power Company, as a result of our Decision No. 85731 in Case No. 9886, this Commission should exercise its regulatory power regarding the coal resource in a consistent fashion.

The Commission presently is investigating (Case No. 10056) the exploration and development activities of both SCE and the applicant. The question of the recovery of costs incurred by Mono Power Company and NARCO at Kaiparowits are before the Commission in that proceeding. We will resolve the proper treatment of exploration and development cost incurred by utility subsidiaries at Kaiparowits by our investigation in Case No. 10056. However, our amortization of power plant costs at Kaiparowits at this time is predicated upon the condition that SDG&E on its own behalf and that of its affiliate NARCO will agree to commit any future profits from the sale of coal or coal rights at Kaiparowits up to the total amount amortized in this proceeding plus the accrued interest at seven percent of such amortized amounts.

Our allowance of the amortization as recommended by the staff is also subject to the recommendations set forth in the report of the Finance Division in Exhibit 195. Those recommendations will be implemented by the requirement that the amortization amount, including any additional adjustment, is subject to Commission approval after staff review. Such staff review will provide assurance that the staff recommendations as set forth in detail in Exhibit 195 are complied with.

D. Differences from Revenue Estimate Changes

A number of differences between the staff and the utility estimates for 1976 result from differences in the revenue estimates. Customer accounting and collecting expenses are a function of revenues. Franchise requirements change due to differences in the revenue estimates. State corporation franchise tax and federal income tax differ as a result of estimated revenue and expense differences. Differences in federal income tax attributable to the ITC have been discussed earlier in this decision. The tax treatment of the additional ITC available from the TRA of 1975 will be ratable flow-through over the average life of the plant as selected by the utility. The advantages to the utility from this treatment have been taken into account in the authorized rate of return.

E. Franchise and Uncollectible Costs in ECAC

The allowance for franchise and uncollectible costs in energy cost adjustment revenues arises from the fact that the allowance for such uncollectibles and franchise fee expenses under the energy cost adjustment do not offset the expense incurred by the utility at the one percent level adopted in the ECAC computation.

The negative expense adjustment for franchise requirements and uncollectibles is to adjust the test year estimates for franchise and uncollectible expenses attributable to the ECAC revenue. By this decision the Commission will establish the ECAC to establish a zero base energy charge in the SDG&E rates. For test year purposes the ECAC allowance of one percent for franchise fees and uncollectibles calculated from test year sales, will be used for the adjustment for franchise requirements and uncollectibles associated with ECAC revenues. Based upon the adopted sales for the electric department, the franchise uncollectible costs adjustment for ECAC will be $1,336,900.

F. Amortization of Sycamore Canyon Combined Cycle Plant and a 32 MW Gas Turbine

SDG&E requests amortization over a five-year period of cancellation costs related to a proposed combined cycle plant at Sycamore Canyon. A staff engineer reviewed the request and concluded that the company had been prudent in entering into a contract with Turbodyne, based upon the information available in 1973 regarding generating capacity required to meet projected requirements. As a result of unexpected lower requirements in 1974, generating requirements were reduced and the plant was cancelled. The utility incurred expenses related to the cancellation of contracts that had been entered into with Turbodyne. The cancellation costs involve a $5,200,000 settlement with Turbodyne on Unit 1 and $251,000 as a result of the cancellation of Unit 2, a $5,451,000 total. In 1974 the utility also cancelled a planned 32 MW gas turbine. The total cancellation cost was $680,000. The total claim of $6,131,000 was accepted as a proper amount to be amortized over a five-year period by a staff witness from the Utilities Division.

The Finance Division recommended disallowance of cancellation costs on the ground that the utility had failed to secure a certificate of public convenience and necessity as required under Commission rules prior to construction of the generating facility at Sycamore Canyon. The testimony of the staff engineer clearly establishes that based upon reasonable future projections in 1973 and reasonable lead times for construction of such generating plant the utility's actions were reasonable. The staff engineer further reviewed the cancellation costs and concluded that company management acted reasonably in incurring cancellation costs after unexpected changes in its planned generation requirements in 1974.

A regulated utility will not be allowed to charge ratepayers for costs incurred by management imprudence. However, when the utility incurs costs as a result of prudent management decisions followed by unexpected subsequent events, such expenses may be taken into account as part of the cost of utilities service. The contracts entered into required substantial lead time in order to meet the proposed construction program in 1973. Our conclusion in this matter also applies to the 32 MW gas turbine cancellation. The review of the utility's action regarding the gas turbine unit establishes that SDG&E managment was not imprudent.

Both the City and counsel for DOD argue that the utility has incurred a total of $13.5 million in expenses associated with the cancellation of planned generation plants and that the magnitude of these expenses, when taken in total, is simply unacceptable. The basic position of the DOD is the number of mistakes refutes the belief that prudence was exercised by SDG&E.

We are convinced that it would be inequitable to disallow expenses incurred as a result of reasonable management action. Our conclusion regarding the particular cases of Sycamore Canyon and the 32 MW gas turbine project is not based merely upon self-serving declarations of management. Our conclusion is supported by the judgment of staff engineers who reviewed the information available to the utility management when the decisions were made and the subsequent conditions that existed when the cancellations were made. The costs will be amortized. We do note that the stakes involved in these judgments are increasingly greater, and we caution management to exercise caution in such matters.

G. Rate Base Items

SDG&E seeks to include two items in Account 105 as plant held for future use; the staff would disallow them. The first item amounts to $9,952,300 for two gas turbines which were originally intended as peaking units at the South Bay plant. SDG&E secured a certificate of public convenience and necessity by Decision No. 83948 for the installation of these peaking units. These two gas turbines are presently held by the utility in storage.

The second item in dispute is tower steel materials in the amount of $1,125,600. The tower steel materials were the subject of dispute in the last general rate case of SDG&E. The tower steel material was disallowed from rate base in that decision. SDG&E again seeks to include this tower steel in materials and supplies.

SDG&E does not intend to use the South Bay gas turbines as peaking units. SDG&E now plans to use the South Bay gas turbines as part of a combined cycle unit at its Silvergate generating plant. The planned construction of combined cycle plant at Silvergate is scheduled for June 1979, according to SDG&E. We are aware that SDG&E has such a proposal now before the California Energy Resources Conservation and Development Commission, and we are impressed by the apparent advantages to be derived from this alternative. The tower steel is to be used over the next five or six years.

The dispute involves the propriety of including the gas turbines in Account 105. The requirements that such plant held for future use be owned by the utility and intended to be used for utility service are met. The third condition for plant held for future use (Account 105) is that there must be a definite plan for use of such plant. It is clear that originally there was a definite plan for the use of the gas turbines as peaking generating capacity at the South Bay location. It is also clear that plan was cancelled and the use became indefinite as the utility attempted to determine the best use for the gas turbines after their construction and delivery.

We regard the original management decision regarding original acquisition of the gas turbines as prudent. The utility had obtained a certificate of public convenience and necessity to support actual construction and use of the gas turbine in utility service. In order to utilize the turbines in a combined cycle installation at its Silvergate location the utility has filed an application for a new certificate for such use.

The problem should be resolved by reasonable construction of the provisions of the Uniform System of Accounts. The gas turbines were initially plant held for future use and includable in rate base for there was an existing definite plan. As circumstances changed there was no longer a definite plan for such use. Had the utility cancelled the ordered gas turbines and incurred cancellation expenses the situation would have been similar to the Sycamore Canyon combined cycle situation.

The evidence convinces us that the utility management is making every reasonable effort to minimize the loss or expense incurred. There is a definite plan to use the gas turbines to repower generating plant in a new combined cycle installation at Silvergate. Under the circumstances we will include the gas turbines in the rate base at this time.

The tower steel material was excluded from rate base in our Decision No. 83675. As we stated in that decision the utility's determination that it should retain ownership of the material for future use depends in part upon the alternatives available to the utility at this time. The evidence indicates that the utility has retained tower steel material in Account 105 (now in the amount of $1,125,600). An amount of $205,800 consisting of cable insulators and miscellaneous accessory tower line material is now carried in materials and supplies. The intended use of the tower line material in Account 105 is for projects with in-service dates of 1979, 1981, and 1983. A small amount will be used in 1976.

We have not allowed CWIP to be included in rate base. However, we are prepared to recognize the substantially longer construction periods and lead times required to utilize the gas turbines and tower steel acquired in the past. The evidence presented convinces us that the items in dispute were reasonably acquired with a definite plan of use for utility purposes. The intended use was frustrated by changing circumstances. The utility has definite plans for use at this time. Due to the particular circumstances in this case, we will allow the items to be included in rate base. Our decision is based on the particular facts of this case and is not to be regarded as an abrogation of our usual requirements.

H. Fuel Oil Inventory

Consistent with Decision No. 83675 dated October 29, 1974, the weighted average values for fuel oil in storage will be used to calculate the allowance in materials and supplies for fuel oil.

V. Summary of Earnings - Gas Department

By late-filed Exhibit 197 the staff set forth the differences regarding the 1976 test year estimates for the gas department of SDG&E. Table 13-A from Exhibit 197 is set forth below as Table 3.

Table 3

San Diego Gas & Electric Company

Summary of Earnings
(Year 1976 Estimated)

(Gas Department)

Item	Present Rates: Staff	Present Rates: Utility	Adopted
	(Dollars in Thousands)		
Operating Revenues			
Sales to Customers-Basic	$ 97,217.7	$ 95,923.6	$ 93,225.7
Interdept. Sales Adjusted	1,268.6	1,268.6	11,534.8
Miscellaneous	384.2	384.2	334.3
Total Oper. Revs.	98,870.5	97,576.4	105,094.8
Operating Expenses			
Base Fuel or Gas Supply	54,985.5	54,253.2	58,433.5
Storage	650.3	650.3	650.3
Transmission	810.5	810.5	810.5
Distribution	7,824.0	7,824.0	7,824.0
Customer Accounting & Collecting	4,249.5	4,246.5	4,364.4
Marketing	813.8	813.8	813.8
Admin. & General	8,753.6	8,723.2	8,874.1
Subtotal	78,087.2	77,321.5	81,670.6
Adj.-Employees Not Rehired	(124.4)	(124.4)	(124.4)
Wage Adj. for 1976	70.3	70.3	70.3
Adj.-Employees to be Rehired	(215.6)	.0	.0
Subtotal after Wage Adj.	77,817.5	77,267.4	81,616.5
Depreciation - Book	6,180.4	6,180.4	6,180.4
Taxes other than Income	4,090.5	4,090.5	4,090.5
State Franchise Tax	149.6	29.7	416.2
Federal Income Tax	.0	(395.6)	915.3
Total Oper. Exps.	88,238.0	87,172.4	93,218.9
Net Oper. Revs. Adj.	10,632.5	10,404.0	11,875.9
Rate Base	124,872.5	125,039.4	125,533.2
Rate of Return	8.51%	8.32%	9.46%

(Red Figure)

A. Operating Revenues

The adopted results of operations at present rates are based on current data furnished to the Commission in recent proceedings. This information shows that the gas deliveries for 1976 and into 1977 substantially exceed the original test year estimates. The best information currently available to the Commission is that such deliveries will continue at this higher volume during the time these rates are likely to be in effect. The adopted results of operations based on these deliveries indicate that no gas rate increase is presently required to allow the utility to earn its authorized rate of return.

B. Adjustment for Employees to be Rehired

The staff adjusted downward the estimated transmission and distribution expenses related to gas department storage as a result of the utility termination of employees in the fall of 1975. This appears as adjustment-employees to be rehired in the amount of $215,600.

SDG&E terminated 300 employees in the fall of 1975 on the basis that it was facing a financial emergency. A staff witness reviewing gas department storage, transmission, and distribution expenses concluded that not all of the employees terminated in the fall of 1975 had been rehired by June 1976. The company contended that it was rehiring the terminated employees and that the total number of employees on a company-wide basis established that there was a return to normal manpower strength.

Applicant utility discharged the employees in October 1975. A witness on behalf of the company stated that expected 1976 results of operations reflected a reduction in manpower caused by inadequate interim rate relief from Decision No. 85018. This adjustment was not shown in the test year according to the utility witness because the cutback in manpower was considered only temporary until adequate rate relief would be granted. However, the applicant's witness conceded that after October 1975 a decision was made to rehire some of the 300 employees. The position of the company on June 16, 1976 was that 64 of the 300 employees were permanently laid off and the effect of this reduction in operating expenses of employees not rehired was included in the 1976 estimates as adjustment-employees not rehired in the amount of $124,400 (gas department). The staff and the utility have agreed on this estimated amount. This is an apportionment of a total company adjustment (all departments) of $706,900.

The utility conceded that estimated 1976 operating expenses would necessarily be reduced by the number of employees not to be rehired. The disputed amount labeled "adjustment-employees to be rehired" is an additional reduction of expenses applicable to gas department storage, transmission, and distribution expenses. This reduction is based on the fact that employees terminated in late 1975 were not on the payroll in June 1976.

Table 4

San Diego Gas & Electric Company

Summary of Earnings
(Year 1976 Estimated)

(Steam Department)

Item	Present Rates Staff	Utility	Adopted
	(Dollars in Thousands)		
Operating Revenues			
Sales to Customers-Basic	$867.8	$846.0	$846.0
Total Oper. Revs.	867.8	846.0	846.0
Operating Expenses			
Base Fuel or Gas Supply	636.1	627.1	627.1
Production	79.3	79.3	79.3
Distribution	45.5	45.5	45.5
Customer Accounting & Collecting	1.1	1.1	1.1
Admin. & General	52.5	52.6	52.3
Subtotal	814.5	805.6	805.3
Adj.-Employees Not Rehired	(1.7)	(1.7)	(1.7)
Wage Adj. for 1976	.2	.2	.2
Subtotal after Wage Adj.	813.0	804.1	803.8
Depreciation— Book	33.5	33.5	33.5
Taxes other than on Income	32.6	32.6	32.6
State Franchise Tax	.0	(7.8)	(6.1)
Federal Income Tax	(38.2)	(42.2)	(44.0)
Total Oper. Exps.	840.9	820.2	819.8
Net Oper. Revs. Adj.	26.9	25.8	26.2
Rate Base	390.6	391.7	391.7
Rate of Return	6.89%	6.59%	6.69%

(Red Figure)

Based on the evidence presented of total company employment, it appears that SDG&E's rehiring program will meet its objectives, although perhaps not on a department by department basis. The additional staff adjustment will not be adopted.

VI. Steam Department

The differences between the staff and the utility estimates for the steam department are set forth in Table 11-A, Exhibit 197. Said table is set forth as Table 4.

An examination of the above table establishes that the differences between the staff and the utility estimates for the steam department amount to a difference of $1,100 in net operating revenues and an equivalent amount in rate base estimates. We will adopt the estimates of the utility as set forth in Table 4 (steam department) with the exception that we will not include interest-bearing CWIP in rate base as requested by the utility.

VII. Rates

A. Fuel Clause Revenues Overcollected

On March 18, 1975 this Commission instituted an investigation into the electric fuel cost adjustment tariff provisions granted to major electric generating corporations. By Decision No. 85731 dated April 27, 1976 in Case No. 9886 we found that SDG&E had overcollected under its existing fuel clause and we adopted a new ECAC procedure as a reasonable alternative to the existing fuel cost adjustment procedure. We found that the amount of over- or undercollection of fuel clause revenues compared to experienced fuel costs should be determined on a recorded basis. Our new procedure provided for the computation of the difference in recorded revenues and recorded energy expenses with the difference to be amortized by the use of the fuel collection balance adjustment (FCBA). In this rate proceeding, we will institute rates under the new ECAC procedure.

In establishing intitial ECAC rates, we are in a transition from the use of a fuel cost adjustment billing factor which authorized increased rates to offset the estimated fossil fuel costs for the generation of electricity. The last fuel clause adjustment authorized rate increases of 0.762 cents per kilowatt-hour applicable to all sales excluding lifeline quantities. This rate was established by Decision No. 85291 dated December 30, 1975 in Application No. 56049 filed November 6, 1975. Decision No. 85291 ordered that SDG&E separately account for the rates collected pursuant to the fuel clause adjustment.

Pursuant to the provisions of Decision No. 85731 SDG&E proposed an ECAC on May 14, 1976. The staff recommended one clarifying clause for the ECAC provisions. By Advice Letter No. 413-E SDG&E requested the proposed ECAC provisions be added to its tariffs, California P.U.C. Sheet Nos. 2620E through 2694E. The City requested suspension of these tariff sheets by protest dated September 8, 1976. The basic position of the City was that SDG&E had overcollected fuel clause revenues pursuant to Decision No. 85291, the most recent fuel clause adjustment decision dated December 30, 1975, and that overcollection under that fuel clause decision exceeded $11 million as of July 1976. The City contended that these overcollections should not be included in the ECAC FCBA.

The fact is that SDG&E will not retain any fuel clause revenues that exceed the actual fuel clause expenses incurred. However, the balance in the fuel clause overcollection account which represents fuel cost revenues in excess of recorded fuel costs fluctuates from month to month. By our decision in this proceeding we will follow the staff recommendation of establishing basic electric rates on a zero base energy cost and establish the ECAC adjustment rate at the same time so there is no duplicate recovery of energy costs. For purposes of implementing ECAC rates the effective dates will be March 1 and September 1 for purposes of revision of the ECAC each year. Our initial 12-months'recorded period for the first ECAC rate will be 12 months ending December 31, 1976.

With regard to the overcollection under the fuel-clause increase granted by Decision No. 85291 dated December 30, 1975, we are of the opinion that the public interest is best served by accounting for the overcollection in the ECAC balancing account rather than by refunds. Recorded data indicates that the present under-collection balance exceeds the amount of the prior overcollection so that any refund now would be soon offset by an equal or greater increase. Accordingly, we direct the utility to include the revenue from the prior fuel clause increase in the ECAC balancing account for disposition in the ECAC proceeding to follow.

As set forth in Appendix B, the calculated ECAC rate is 2.402 cents per kilowatt-hour, applicable to all rates above lifeline quantities. The ECAC rate is based on recorded data ending December 31, 1976. Since the staff has not verified the company's recorded cost and sale date underlying the ECAC rate, we will incorporate any change that might result after the staff investigation in the next ECAC filing.

B. <u>Gas Department Deferred Revenue</u>

The gas department charges the electric department under the established G-54 rate for interdepartmental gas. In 1976 it became apparent that natural gas volumes available for electric generation were greatly in excess of anticipated amounts. The G-54 rate was substantially in excess of the commodity cost of gas to SDG&E. The utility, with staff concurrence, accounted for the difference between the G-54 rate and the average cost of gas as a deferred credit until the Commission could determine the appropriate disposition of such overcollections. By September 1976 the overcollection was estimated to exceed $1 million.

The staff recommends that the amount accumulated be refunded to SDG&E customers. We disagree. The G-54 rate was lawfully established based on the best information at the time. Had there been a shortfall in deliveries, there would be no "undercollection". The prohibition against retroactive ratemaking resolves this problem. There has been no overcollection and there are no refunds due. SDG&E is free to account for the deferred amount as it may elect for financial reporting.

C. Electric Rates - Domestic Classes

Rate design for the domestic classes on the SDG&E system is complicated by a combination of zone rates and past implementation of lifeline rates. Section 739 of the Public Utilities Code directed this Commission to designate a lifeline volume of gas and a lifeline quantity of electricity necessary to supply the minimum energy needs of the average residential user for certain end-uses. Such lifeline rates shall not be greater than rates in effect on January 1, 1976 and shall not be increased until the average system rate in cents per kilowatt-hour increased 25 percent or more over the January 1, 1976 level. Lifeline quantities for certain end-uses as required by law were established by our Decision No. 86087 dated July 13, 1976.

At the present time SDG&E has four different zone rates for domestic customers. The D-1 through D-4 zones at present lifeline rates have four different customer charges and different energy charges in different blocks. This rate structure is further complicated by the fact that the fuel cost adjustment billing factors have been applied to nonlifeline usage for the four different zone rates. Superimposed on the existing rates are the new basic lifeline allowances for different climatic zones with basic allowances for end-usage frozen temporarily at the January 1, 1976 level.

It is obviously time to simplify the domestic rate structure to reflect lifeline usages by climate zones and end-use allowances. There is no logical reason to incorporate four different zone rates into the basic lifeline allowances for domestic customers on the SDG&E system. The staff recommends that zone rates be retained at this time because the elimination of the existing zones under present lifeline restrictions would necessarily result in reductions of the three higher zone rates to the level of the D-1 rates. But the lifeline quantity of electricity is the energy necessary to supply the minimum energy needs of the average residential user for designated end-uses. As rates above the minimum lifeline allowance are increased, it appears unreasonable to retain different lifeline rates for domestic customers on the SDG&E system.

Lifeline domestic service for electric customers will be established under a single Schedule D. Present energy cost charges will be superceded by the ECAC rates established pursuant to our decision.

D. Gas Department - Domestic Customers

Our determination that no gas rate increase is required results in no change in gas rates. However, our discussion regarding lifeline rates to domestic electric customers is applicable to the domestic gas customers of SDG&E, and rate reform will be implemented in PGA proceedings to follow. The staff's gas rate exhibit continues existing zone rates in order to avoid rate reductions in the lifeline quanitites for eliminated zones. As we stated in our discussion of electric rates, domestic customers are provided a minimum quantity of energy under the lifeline allowances. As gas rates increase there appears to be no reason to retain different charges for the lifeline quantities supplied domestic customers on the SDG&E system. Exhibit 181 sets forth the necessary lifeline rates for gas service.

E. Nonlifeline Electric and Gas Rates

Our rate changes will adopt the staff recommendations for nonlifeline rates insofar as possible. Based on the staff's report on cost allocations, agricultural power rates, and general service (large and very large) groups, the record indicates that these classes should receive relatively greater increases. This recommendation is based on the staff's conclusion that these classes are not providing a return comparable to other nondomestic classes.

The staff recommendation to establish demands plus energy blocking for A-6 rates is necessary as preliminary to time-of-day pricing. SDG&E applied for such pricing tariffs by Application No. 56598. Our decision implements such requested tariffs.

Present electric rate Schedules A-1 through A-4 were established on the same density zone basis as the domestic rate schedules. Now we will consolidate the different density zones into one Schedule D for the reasons stated previously. Commission Decision No. 86087 in Case No. 9886 states on page 45:

> "Over the years gas and electric utilities have developed rate zones based on customer density. These rate zones gave some recognition to progressively higher costs to serve as customer density decreased. Now that conservation and other social considerations are being added to the more traditional rate factors of cost and value of service, it appears that a plethora of rate zones is no longer appropriate. We will, therefore, in individual rate cases, sympathetically entertain proposals to reduce the number of, or eliminate entirely, rate zones."

In addition to justifying the elimination of the domestic rate zones based on the minimum energy needs of the average residential user for designated end uses, there is the further justification that construction in the dense service area is more costly than in the less populated areas and present trends toward undergrounding in the new and densely populated areas tend to further exaggerate the difference in cost. This also tends to equalize the plant cost per customer in all zones. This is true for domestic service and is also true for commercial and industrial service, most of which is in fairly densely populated areas.

We will consolidate rate Schedules A-1 through A-4 into one Schedule A.

The service establishment charges recommended by the staff of $5 during regular hours and $10 outside regular hours applicable to both gas and electric service will be adopted. This charge is supported by the staff study of the associated costs.

Our nonlifeline gas rates will adopt the staff's recommendation for gas rates. The staff recommendation to establish an equal tail block rate for all zone areas for commercial and industrial general service tariffs will simplify blocking. A customer charge will replace the existing minimum charge for these customers. Domestic usage above lifeline quantities should be priced at an equal tail-block rate.

F. Master Meter Customers

Western Mobile Home Association (Western) presented evidence in support of its request for a further percentage reduction in proposed multiplier schedules on submetered gas and electricity service. The schedule involves the problem of providing lifeline rates to domestic customers served through a master meter. Our Decision No. 85626 dated March 30, 1976 established two different rates for master meters serving PG&E domestic users. The PG&E multiplier schedules generally provided that the commodity rate to the master meter customer who does not submeter will be the multiple of the therms in all blocks and the number of residential units. Master metered customers who were submetered were granted an additional ten percent discount on the lifeline blocks.

Our Decision No. 86087 dated July 13, 1976 established lifeline allowances for master metered domestic users. The decision provided for a master meter rate based on the domestic schedule blocks times the number of domestic units served. Submetered systems received an additional ten percent discount for lifeline blocks. As Western points out, the California Public Utilities Code, Section 739.5, provides that a master meter customer providing submeter service shall charge each user the applicable gas or electric utility rate. The statute further provides that the utility rate established for master meter service must be at a level to cover the reasonable average costs to provide submeter service provided such costs not exceed the average cost the utility would have incurred to provide comparable service beyond the master meter. The Legislature found that the maintenance of such differential will benefit tenants of mobile home parks by enabling them to have the full benefit of "lifeline rates".

Western argues that it has established, on our record, the differential necessary to cover the costs to provide submeter service. Specifically, Western claims its evidence supports percentage differentials of approximately 45 percent for electric service and approximately 15 to 30 percent for gas service.

The evidence presented by Western does not support the claimed differentials. The evidence is that 667 mobile home parks exist in the SDG&E service area. One-half of the total trailer lots (not parks) existed prior to 1960. Western's comparisons of the differentials under various assumptions are based on a statewide sample of parks. The data presented to support requested increases in the percentage differential are not based on average costs for parks in the SDG&E service area. Western relies on statewide samples and relatively recent vintage parks. None of the parks used in the electric cost computation are pre-1970 and only one in the gas cost computation is pre-1970. The groups do not purport to be representative samples of parks in SDG&E's service territory.

We cannot establish average costs without data applicable to SDG&E's service area. The high percentage discounts requested by Western appear unrelated to the differentials available in recent years before lifeline rates commenced. Moreover, the cost evidence of Western appears limited to the most recent construction costs.

Certain of Western's requests are valid. The tariffs should provide a multiplier rate for the master meter customer who submeters to domestic users. In addition, the rates should provide a ten percent discount to such master meter customer. This differential is in recognition of the necessity of covering the costs of submetered service so that tenants can obtain the benefit of lifeline rates. Based on our record, it is possible that this discount may provide a greater differential than has been experienced in the past by some park operators. This rate should not be established until we have average cost data for SDG&E's service area as well as evidence of SDG&E's average cost to provide such service.

The further request of Western that SDG&E be required to provide metered service to mobile home parks in the future will be granted. The tariff will provide that in the event SDG&E is unable to serve new parks within a reasonable amount of time the utility will reimburse the park owner the reasonable construction costs of a system which meets SDG&E's utility construction specifications, including a provision that all units should be submetered. The utility shall have a duty to advise a park owner of its proposed construction and service schedule after it receives a request for new service.

VIII. Revenue Requirements

The City urges that the revenue requirements of SDG&E should be determined by projected revenues and expenses based on recent recorded results. We cannot assume that the most recent recorded 12 months' experience, obtained from the latest available monthly report, will produce more accurate estimates than our adopted results. The staff has not restricted its estimates to the most recent 12 months' recorded data but has examined the accounts over a period of years to obtain adjusted and trended estimates. Where our adopted estimates vary from the staff's we have set forth the reasons for our adopted results in detail.

The gross revenue increase required to produce a 9.50 percent rate of return for each department is derived from our adopted results of operations. The net revenue is increased for tax requirements, franchise fees, and uncollectible expense. The electric department revenue increase is $9,410,000 and the steam department is $27,700. There is no gas rate increase.

The rate increase for certain electric department customers will be affected by the new ECAC rates which result in revenue decreases of $2,052,500.

Findings

1. SDG&E by Applications Nos. 55627, 55628, and 55629 requests authority to increase its base rates and charges in the annual amount of $49,400,000 (18.4 percent). SDG&E's request is based on a 1976 test year.

2. Decision No. 85018 dated October 15, 1975 granted SDG&E interim rate relief of $27.2 million designed to maintain a 12.38 percent return on equity.

3. Decision No. 85291 dated December 30, 1975 in Application No. 56049 filed November 6, 1975 granted SDG&E an increase in its fuel clause factor subject to refund to the extent fuel clause revenues exceeded increased fossil fuel expense. The estimated annual revenue increase was $20,501,600.

4. A reasonable rate of return to be applied to SDG&E's jurisdictional rate base for the test year 1976 is 9.50 percent.

5. For the test year 1976 a reasonable estimate of SDG&E's electric department operations are the adopted estimates set forth in Table 2. The revenues and expenses set forth in Table 2 exclude the revenues and expenses from the energy cost adjustment tariff. The estimates also exclude past overcollections under the fuel clause rate adjustment tariff which will be refunded.

6. For the test year 1976 a reasonable estimate of SDG&E's gas department operations are the adopted estimates set forth in Table 3. Table 3 estimated revenues and expenses exclude GEDA and purchased gas adjustment (PGA) changes after October 15, 1975.

7. Based upon adopted estimates, the basic electric rates should be increased to produce an estimated annual revenue increase of $9,410,000. The increase by class of customers is shown in Appendix E.

8. Based on the adopted estimates, gas department rates should not be increased.

9. Based on our adopted estimates for the steam department (Table 4), steam department rates should be increased to produce an estimated $27,700 (3.3 percent).

10. ECAC rates should be established concurrently with the basic electric department rates authorized by this decision. The 12-months' period for initial ECAC rates is the test year 1976. The ECAC balancing account is based on recorded data commencing September 1, 1976. The initial ECAC rate is 2.402 cents per kilowatt-hour. Appendix B is adopted as our finding on the proper ECAC calculation based on recorded 1976 experience.

11. The overcollections resulting from fuel clause adjustment rates are the excess of revenues over related expenses as of August 31, 1976 (when our ECAC balance accounting ~~begins~~ began). Such overcollections with related interest to May 1, 1977 should be accounted for in the ECAC account.

12. The deferred revenue collected by the gas department from the electric department on interdepartmental gas sales should be credited to the gas department.

13. Interest-bearing CWIP is excluded from rate base. Plant under construction is included in rate base when construction is complete and the plant is used to serve future utility customers. There is no necessity to change this treatment of CWIP at this time.

14. The adopted electric department estimates authorize amortization of costs associated with the Kaiparowits power project. These costs are allowed on the specific condition that SDG&E agree that should coal or coal rights held by its subsidiary NARCO be sold or otherwise disposed of at a profit, such profits will be refunded to the ratepayers. The Commission shall receive acceptance of this condition in writing within 15 days of the effective date of this decision. The proper treatment of Kaiparowits coal project costs shall be considered in our Case No. 10056.

15. SDG&E should provide an accounting of Kaiparowits costs as recommended by the staff (Exhibit 195) to the Commission in writing within 30 days of the effective date of this decision.

16. SDG&E should revise its tariff provisions to provide uniform electric lifeline rates to all domestic customers, including nonlifeline rates and blocks. The present domestic rate schedules are inconsistent with uniform rates to all lifeline customers. Density zone rates will be replaced by a single zone rate. A single rate zone for all customers in the same class is consistent with rates designed to encourage all customers to conserve energy.

17. Master meter customers who provide service to domestic end-users of gas and electricity should receive the benefit of lifeline rates. The master meter customer should be offered a rate based on the lifeline rates and the number of domestic end-users times the quantity in the applicable lifeline blocks.

18. Master meter customers who provide submetered service to domestic end-users of gas and electricity should be offered a multiplier rate as described in Finding 17. In addition, such master meter customer should receive a ten percent discount on all lifeline commodity rates to provide a differential to cover the costs of providing submeter service.

19. SDG&E should install and provide utility service on an individual meter basis to lots on new mobile home parks. If SDG&E is unable to construct necessary facilities to serve new parks within a reasonable time after receiving written request for such service, SDG&E should reimburse the park owner for reasonable costs incurred to construct the system required to provide utility service, provided that individual meters are installed. Such reimbursement should not exceed the costs SDG&E would have incurred had the utility performed such work.

Conclusion

The three applications should be granted to the extent set forth in the following order and the applications are in all other respects denied.

O R D E R

IT IS ORDERED that:

1. San Diego Gas & Electric Company (SDG&E) is authorized to file with this Commission after the effective date of this order, in conformity with the provisions of General Order No. 96-Series, revised tariff schedules with rates, charges, and conditions modified as set forth in Appendix C (electric), and Appendix D (steam), each of which is attached to this order, and on not less than five days' notice to the Commission and to the public, to make such revised tariffs effective five days after filing.

2. Concurrently with any rates established under Ordering Paragraph 1, present fuel clause adjustment rates shall be superseded by the Energy Cost Adjustment Clause rate set forth in Appendix B attached to this order.

3. SDG&E shall file the reports required by our Findings 14 and 15.

Because of the ~~immeidate~~ immediate need for rate relief the effective date of this order is the date hereof.

Dated at San Francisco, California, this 19th day of JULY, 1977.

Robert Batinovich
President
William Symons Jr.
Vernon L. Sturgeon
Richard D. Gravelle

Commissioners

I concur:
The discussion set forth at pages 36 through 40 of this decision leave great doubt in my mind that the management decisions, and practices underlying those decisions, were indeed prudent. Current management should be forewarned that at least one Commissioner will not in the future look favorably upon similar actions which result in unnecessary revenue requirement from the utility ratepayer. Management action, as well as regulatory action, affects the quality of the utility's ratings. Richard D. Gravelle

I will file a concurring opinion
William Symons Jr.

Commissioner CLAIRE T. DEDRICK
Present but not participating.

APPENDIX A

List of Appearances

Applicant: Chickering & Gregory, by Sherman Chickering, C. Hayden Ames, and Allan Thompson, Attorneys at Law; Gordon Pearce, Attorney at Law, and John H. Woy.

Protestants: Robert S. Giovannucci, for Real Estate Servicing Company; Zoe Weinberg (in lieu of Elaine Liebbrandt) and Arthur Deutsch, for the Gray Panthers; Fritjoh Thygeson, for San Diego Energy Coalition; Madeline Marini, for Consumer Power and San Diego Energy Coalition; and Jack Walsh, Attorney at Law, for himself.

Interested Parties: Ronald L. Johnson and William S. Shaffran, Deputy City Attorneys, and M. W. Edwards, Utility Rate Consultant, for the City of San Diego; Graham & James, by Boris H. Lakusta and David J. Marchant, Attorneys at Law, for Western Mobilehome Association; Clayson, Rothrock & Mann, by George G. Grover, Attorney at Law, for Valley Center Municipal Water District; Fallbrook Public Utilities District; Rainbow Municipal Water District; Vista Irrigation District; Ramona Municipal Water District; Yuima Municipal Water District; Poway Municipal Water District; Olivenhain Municipal District; and Rincon Del Diablo Municipal Water District; William H. Edwards, Attorney at Law, for the California Farm Bureau Federation; Dennis B. Kavanagh, Attorney at Law, for Golden State Mobilehome Owners League; Robert T. Kyle, for Bernardo Home Owners Corp.; Fritjoh Thygeson, for San Diego Energy Coalition; Charles J. Mackres, for the Department of Defense and other Executive Agencies of the United States Government; Mark B. W. Murray, for Southern California Edison Company; Frank J. Dorsey, for The Consumer Interest of the Executive Agencies of the United States; Elroy F. Wiehl, for the City of Escondido; Debra A. Greenfield, for the City of Vista; Madeline Marini, for Consumer Power and San Diego Energy Coalition; Herbert B. Shore and Francis Halpern, for San Diego Energy Coalition and New American Movement; James Jacobson, for Solar Advocates of San Diego; and Clem J. Nevitt, for himself and other retired employees.

Commission Staff: Walter H. Kessenick, Jr., Attorney at Law, Jack Gibbons, B. A. Davis, and John D. Reader.

APPENDIX B

RATES - SAN DIEGO GAS & ELECTRIC COMPANY, ELECTRIC DEPARTMENT

ENERGY COST ADJUSTMENT CLAUSE

DEVELOPMENT OF ECAC ADJUSTMENT RATE

		M^2 Kwhr Sale	M$	Rate Per Kwhr Sale
	OFFSET RATE			
1	Current Cost of Fuel & Purchased Energy & Total Sale	8,490	191,828.7	-
2	Less Adjusted for Resale	50.3	1,136.0	-
3	Net Current Cost of Fuel Purchased Energy	8,439.72	190,692.7	-
	Less Adjusted for Lifeline Sale			
4	Schedules D&DM	1,831.66	38,061.9	2.078¢
5	Schedule D	21.37	399.6	1.870¢
6	Subtotal	1,853.03	38,461.5	-
7	Adjusted for Franchise & Uncollectible	1,853.03	38,080.7	-
8	Total Sale Subject to Offset Rate	6,586.69	152,612.0	2.317¢
9	Adjusted for Franchise & Uncollectible	-	-	2.340¢
	BALANCING RATE			
10	Balance of Energy Cost Adjustment Account (Balancing Account) as of December 31, 1976		4,013.0	
11	Record Period Sales Applicable to Non-Lifeline ECAC Adjustment Rate	6,586.69		
12	Balancing Rate			0.061¢
13	Balancing Rate Adjusted for Franchise & Uncollectible (L.12x1.01)			0.062¢
14	Adjustment Rate (L.9+L.13) Applicable to Non-Lifeline Sales			2.402¢
15	Adjustment Rate Applicable to Lifeline Sales (.00405 + .01673)¢			2.078¢

APPENDIX B

RATES - SAN DIEGO GAS & ELECTRIC COMPANY, ELECTRIC DEPARTMENT

ENERGY COST ADJUSTMENT CLAUSE

DEVELOPMENT OF CURRENT COST OF FUEL AND PURCHASED POWER
BASED ON YEAR ENDING DECEMBER 31, 1976 RECORDED PERIOD

Line No.	Item	Net System Input M^2Kwhr	Fuel Burn M^3Btu	Current Unit Prices ¢/M^2Btu	Current Unit Prices ¢/Kwhr	Cost M$
1	Purchased Energy	1,471.73				11,797.6
2	Nuclear Generation	489.85			0.26194	1,283.1
3	Fossil Fuel					
4	Natural Gas		12,748.5	191.940 1/		24,469.5
5	Diesel Oil		2,366.1	245.518 2/		5,809.2
6	Residual Oil		63,602.2	234.201 2/		148,956.9
7	Subtotal Fossil Fuel	7,505.88	78,716.8			179,235.6
8	Total	9,467.46				192,316.3
9	Less Base Energy Cost					-
10	Less Revenue from DWR					487.6
11	Amount of Current Cost of Fuel and Purchased Energy Above or Below Base Cost and DWR Revenues (Line 8 - Line 9 - Line 10)					191,828.7

1/ Schedule G54. Rate effective 1-7-77.

2/ December 31, 1976, inventory price.

RATES - SAN DIEGO GAS & ELECTRIC COMPANY, ELECTRIC DEPARTMENT

ENERGY COST ADJUSTMENT CLAUSE

Revise the Preliminary Statement to incorporate change outlined in the body of this decision. Following are the major areas where the revision or addition is needed.

(1) Zero base rates and related references.
(2) Revision dates.
(3) Offset rate.
(4) Fuel collection balance adjustment.
(5) Residual oil sale adjustment.
(6) Footnotes.

Appendices C and E

San Diego Gas & Electric Company is authorized to file, on an interim basis, the following increases in rate schedules:

Customer Class	% Increase
Domestic	
DR, DM, DS, 1 to 4	0.107¢/kwhr above lifeline
General Service, Regular	
A-1,2,3,4, H, AME-2	5.76%
General Service, Large	
A-5, A-6	9.53%
General Power	
P, PDC, PME	7.83%
Agricultural Power	
PA	8.33%
Outdoor Lighting	
OL-1, OL-MER, DWL, OL-1C, OL-MEC	6.14%
Street Lighting	
LS-1,2,3 & 4	5.00%
Miscellaneous	21.26%
Total Average	5.39%

By subsequent order the Commission will implement the rate design provisions of this order, including consolidation of rate zones.

APPENDIX D

RATES - SAN DIEGO GAS & ELECTRIC COMPANY
Steam Department

Applicant's rates, charges and conditions are changed to the level or extent set forth in this appendix.

GENERAL STEAM SERVICE (SCHEDULE 1)

Rates	Per Meter Per Month Base Rates
Customer Charge	$ 6.71
Commodity Charge: Monthly consumption in pounds:	
First 100,000 lb., per 1,000 lb.	2.8436
Next 100,000 lb., per 1,000 lb.	2.7094
Next 100,000 lb., per 1,000 lb.	2.5753
All excess, per 1,000 lb.	2.3995

GENERAL STEAM SERVICE (SCHEDULE 2)

Rates	Per Meter Per Month Base Rates
Customer Charge	$ 6.78
Commodity Charge: Monthly consumption in pounds:	
First 100,000 lb., per 1,000 lb.	2.8720
Next 100,000 lb., per 1,000 lb.	2.7365
Next 100,000 lb., per 1,000 lb.	2.6011
All excess, per 1,000 lb.	2.4238