

Decision No. 89578 OCT 31 1978

**ORIGINAL**

BEFORE THE PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

In the Matter of the Investigation  
on the Commission's Own Motion of the  
adoption of the Uniform System of  
Accounts for Electrical Corporations  
prescribed by the Federal Power  
Commission for public utilities and  
licensees.

Case No. 4230  
(Reopened March 2, 1978)

In the Matter of the Investigation  
on the Commission's Own Motion to  
Consider the Adoption of a Revised  
Uniform System of Accounts for Gas  
Corporations.

Case No. 6998  
(Reopened March 2, 1978)

Leslie E. LoBaugh, Attorney at Law, for  
Southern California Gas Company and  
Pacific Lighting Service Company;  
Jeffrey Lee Guttero, Attorney at Law,  
for San Diego Gas & Electric Company; and  
Robert B. McLennan, Attorney at Law,  
for Pacific Gas and Electric Company;  
respondents.  
Sara S. Myers, Attorney at Law, for the  
Commission staff.

EIGHTH SUPPLEMENTAL ORDER IN CASE NO. 4230  
AND FIFTH SUPPLEMENTAL ORDER IN CASE NO. 6998

O P I N I O N

After due notice, hearing on these matters were held in San Francisco on May 17, 1978 before Administrative Law Judge Tomita and submitted on June 30, 1978 upon receipt of late-filed exhibits and concurrent briefs by San Diego Gas & Electric Company (SDG&E), Southern California Gas Company and Pacific Lighting Service Company (P.L. Cos.), and the Commission staff. The purpose of the hearing was to consider the Commission staff recommendation that the Commission

adopt the Federal Energy Regulatory Commission's (FERC)<sup>1/</sup> Orders Nos. 561 and 561A in Docket No. RM75-27 in which a formula for determining the maximum allowance for funds used during construction (AFUDC) rate is prescribed.

Background

In previous decisions in these proceedings, this Commission has adopted the systems of accounts prescribed by the FERC<sup>1/</sup> formerly referred to as the Federal Power Commission (FPC)<sup>1/</sup> and the amendments made thereto.

The FPC, by Orders Nos. 561 and 561A in Docket No. RM75-27, has amended the requirements of the Uniform Systems of Accounts for Public Utilities and Licensees and the Uniform Systems of Accounts for Natural Gas Companies to prescribe a formula for the determination of the maximum rates that may be used in computing the AFUDC.

The amending order results in revision of existing Account No. 419.1, Allowance for Funds Used During Construction, and adding a new Account No. 432, Allowance for Borrowed Funds Used During Construction - Credit, immediately following Account No. 431, Other Interest Expense. There are also related revisions in the general instructions and plant instructions. The revised plant instructions provide a uniform formula method for determining the maximum rates to be used in computing the AFUDC.

The principal provisions in this revised procedure are:

1. Short-term debt is assumed to be the first source of funds for construction.
2. Any remaining CWIP not financed through short-term debt is assumed to be financed by funds provided according to the pro rata capitalization.
3. The actual embedded interest cost is used to determine the proper rate for borrowed funds.

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<sup>1/</sup> On October 1, 1977, pursuant to the provisions of the Department of Energy Organization Act (DOE Act), Pub. L. 95-91, 91 Stat. 565 (August 4, 1977), and Executive Order No. 12009, 42 FR 46267 (September 15, 1977), the Federal Power Commission ceased to exist and its functions and regulatory responsibilities were transferred to the Secretary and the FERC which, as an independent commission within the DOE, was activated on October 1, 1977.

4. The cost rate for common equity is the common equity rate granted in the last rate proceeding before the ratemaking body having prime rate jurisdiction.
5. Compounding of AFUDC semi-annually is allowed.

Position of Southern California Gas Company and Pacific Lighting Service Company

P. L. Cos. take the position that the FERC formula is inappropriate for the two companies as short-term debt has traditionally been used by the companies as well as the Commission in determining the allowed rate of return and that use of the FERC formula results in a double counting of short-term debt; that FERC's requirement that Allowance for Borrowed Funds Used During Construction (ABFUDC) be used as a deduction from interest charges rather than as other income could result in a reduction of coverage ratios and thereby seriously impair the companies' ability to finance at reasonable rates which would be detrimental to consumers as well as shareholders.

Commission Staff's Position

The staff recommends that the adoption of FERC Orders Nos. 561 and 561A would be beneficial because (a) it would provide a uniform method for calculating AFUDC, (b) all major California gas and electric companies, with the exception of Southern California Gas Company, are subject to the jurisdiction of FERC and Orders Nos. 561 and 561A, (c) it would allow a utility to recover its capital costs without the prospect of any of those costs being double-counted or important categories of such costs being excluded, and (d) it would provide for recognition of differences in capitalization and capital costs between utilities instead of the uniform rate used in the past.

The staff further contends that the concern expressed by P. L. Cos. as to the segregation of AFUDC into two components and the relocation of ABFUDC would affect interest coverage is unwarranted. Staff witness Chew indicated that FERC's clarification of Orders Nos. 561 and 561A clearly shows that relocation of ABFUDC as an interest expense deduction on the income statement was not intended to prevent its use for indenture coverage test purposes. ✓

SDG&E's Position

SDG&E appeared in support of the staff's recommendation. SDG&E recommends adoption of FERC Orders Nos. 561 and 561A for purposes of uniformity and in order to avoid the confusion inherent in maintaining two separate accounting records, one for ratemaking and another for financial reporting.

Discussion

While P. L. Cos. are correct in their contention that this Commission has in certain past decisions recognized short-term debt in arriving at allowable rate of return, it is also true that the Commission could exclude short-term debt in its rate of return computation in order to eliminate any double counting. Witness McManus admitted under cross-examination that if short-term debt is excluded from the adopted capital structure for rate of return calculation purposes (but included in the allowed AFUDC formula), the same end result occurs and the utility would be made whole. Based on the evidence in this proceeding, it is obvious that two different methodologies can produce the same answer if applied properly. We are of the opinion that the prescribing of a uniform formula for developing the maximum AFUDC rate would not be injurious or a disadvantage to the P. L. Cos.

Similarly, the issue of the repositioning of ABFUDC to the interest Charges Section and the question of its impact on interest coverages has been fully discussed in the FERC order clarifying Orders Nos. 561 and 561A. The clarifying order stated:

"The petitioners are correct in their belief that it was not the intent of the Commission in its Order No. 561 to prevent a public utility from continuing to include ABFUDC in determining its earnings available for fixed charges and preferred stock dividend requirements for charter and indenture coverage test purposes. The purpose of repositioning ABFUDC was, as stated in Order No. 561, 'to better inform readers of financial statements of utilities as to the nature and level of the capitalized allowance for funds.' In making this change it was not this Commission's intention to influence or interpret the rights of parties under existing indenture agreements and corporate charters."

For 1977 the major California utilities under FERC jurisdiction used the following AFUDC rates:

Pacific Gas and Electric Company	7.00%
Southern California Edison	6.96%
Sierra Pacific Power Company	8.27%
San Diego Gas & Electric Company	6.70%

The above tabulation indicates that the formula gives recognition to differences in capital cost and capital structures of the individual utilities and therefore enables utilities to have an opportunity to be compensated for the total cost of capital.

#### Findings

We find that:

1. Adoption of FERC Orders Nos. 561 and 561A prescribing a uniform formula for all California gas and electric companies for computing the maximum AFUDC rate a utility may apply to construction work in progress is in the public interest.
2. The repositioning of ABFUDC on the income statement does not preclude a utility from including such amounts in determining earnings for fixed charges and preferred dividend requirements for charter and indenture test purposes.

#### Conclusion

We conclude that this Commission should adopt FERC Orders Nos. 561 and 561A.

### O R D E R

IT IS ORDERED that:

1. The Uniform Systems of Accounts prescribed by this Commission for electrical corporations and for gas corporations are hereby amended as set forth in Order No. 561, Docket No. RM75-27, issued by the Federal Power Commission on February 2, 1977.

2. The Executive Director of this Commission is hereby directed to serve a copy of this order on each respondent electrical corporation and gas corporation.

The effective date of this order shall be thirty days after the date hereof.

Dated at San Francisco, California, this 31st day of OCTOBER, 1978.

Robert Batmangich  
President  
William J. Quous  
Yveson L. Lutzgen  
Carlton D. Swale  
Clair L. Debrail  
Commissioners