

DEC. 18 1995

ORIGINAL

Decision 95-12-040 December 10, 1995

BEFORE THE PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

Application of Southern California Gas Company (U 904 G) Under the Catastrophic Event Memorandum Account (CEMA) for Recovery of Costs Related to the Northridge Earthquake.

Application 94-12-006 (Filed December 9, 1994)

Robert B. Keeler and Daniel G. Clement, Attorneys at Law, for Southern California Gas Company, applicant. Julie Miller and Terri Behrle, Attorneys at Law for Southern California Edison Company, intervenor. Theresa Mueller, Attorney at Law, for Toward Utility Rate Normalization (TURN); and Monica M. Wiggins, for San Diego Gas and Electric Company, interested parties. Patrick Gileau, Attorney at Law; Mark Bumgardner and Donna Fay Bower; for the Division of Ratepayer Advocates.

INTERIM OPINION

Summary and Background

By today's decision, we adopt the procedural schedule proposed jointly by Southern California Gas Company (SoCalGas) and the Division of Ratepayer Advocates (DRA). In addition, we authorize SoCalGas' requested interim rate relief of \$22.345 million, subject to refund.

On January 17, 1994, at 4:31 a.m., a 6.8 magnitude earthquake, struck the greater Los Angeles area. The epicenter was located in Northridge, California. SoCalGas immediately invoked its established earthquake emergency plan to assess the damage, repair facilities and restore gas services to the company's impacted customers.

Pursuant to the procedures established in Resolution E-3238, SoCalGas filed this application to apply for recovery in rates of incremental earthquake-related costs of \$22.345 million (net of insurance recovery, capital costs and associated tax benefits, and expenses currently covered in rates). Resolution E-3238, issued on July 24, 1991, authorized the investor-owned utilities to establish a Catastrophic Event Memorandum Account (CEMA). This account may be used to record costs of: (1) restoring utility service to its customers; (2) repairing, replacing, or restoring damaged utility facilities; and (3) complying with government agency orders resulting from declared disasters. The utilities may record costs in the CEMA account only if competent state or federal authorities officially declare the event to be a disaster. The Resolution further provides that the CEMA account is a memorandum account, which ensures that only reasonable costs are recovered in rates after thorough Commission review.

By letter dated January 25, 1994, SoCalGas informed us of its intention to record costs in its CEMA account because the appropriate state and federal agencies had declared the Northridge earthquake a disaster.

The Joint Proposal

A prehearing conference (PHC) in this matter was held on May 3, 1995. At the PHC, SoCalGas and DRA presented a recommendation for a procedural schedule for resolving any substantive issues raised by the application. The proposal included a recommendation to allow the amounts in the CEMA account to be recovered in rates, subject to refund pending the audit and potential hearings.

SoCalGas and DRA recommend the following:

1. Beginning January 1, 1996, SoCalGas will include in rates and record as a credit to the CEMA account \$22.345 million plus interest to recover costs requested in this application. The revenue requirement would

be allocated to various customer classes on the basis of Equal Percent of Marginal Costs.

2. SoCalGas will file an update exhibit no later than February 29, 1996 to reflect O&M costs, insurance reimbursement and interest recorded in the CEMA account as of December 31, 1995. SoCalGas will not be allowed to revise its CEMA account, nor record in its CEMA account any costs incurred after December 31, 1995, except as allowed in Items 6 and 7.
3. DRA will perform a reasonableness review audit of the charges recorded in the CEMA account as of December 31, 1995, and will issue its report no later than September 30, 1996 to all parties of record in Application (A.) 93-12-043.
4. SoCalGas will file its response to the DRA audit report by October 31, 1996 and will serve its response on all parties of record in A.93-12-043.
5. If required, the Administrative Law Judge (ALJ) will schedule hearings.
6. In addition to the amounts requested in this application and the amounts recorded in the CEMA account as of December 31, 1995, SoCalGas is authorized to charge the CEMA account with costs up to \$1 million, relating to third-party damage claims resulting from the Northridge earthquake that may arise out of any litigation.
7. Third-party damage claims costs up to \$1 million may be recovered in rates subsequent to SoCalGas submitting an advice letter and obtaining approval by the Commission.

San Diego Gas & Electric Company (SDG&E) and Toward Utility Rate Normalization (TURN) object to these recommendations. SDG&E objects to its cost allocation and states that it does not want to argue this issue after the fact. TURN contends that a

balancing account for third-party damage claims may not be appropriate, given the Commission's prior decisions in this area. TURN also requires additional information before it can determine whether it will file testimony in this matter.

SoCalGas represents that all discovery requests will be accommodated and that all parties' interests will be protected, since any interim rate relief will be subject to refund and the appropriate interest adjustment. DRA states that there is no possibility of expediting the filing of its audit report because of its limited staff resources.

Discussion

Before we can determine whether interim rate relief is appropriate, we must balance the burden to DRA of reviewing the application at this time against the costs of delaying the review until September 30, 1996. In response to an ALJ ruling issued on May 15, 1995, DRA filed an estimate of the number of person-hours required to audit A.94-12-006. In some cases where DRA has not had sufficient resources to review an application, DRA has hired an independent consultant to conduct an audit, paid for by the utility as a reimbursable expense. DRA addressed the feasibility of this option.

DRA estimates that approximately 130 person hours would be required for this audit. This estimate could increase significantly if litigation becomes necessary. DRA recommends performing the audit with its own staff, because it believes retaining the services of an outside auditor would save little money in terms of staff resources and would result in higher costs to the ratepayers. Moreover, DRA estimates that up to 80 hours of staff time would be required to select and oversee the auditors and evaluate the audit.

Public Utilities (PU) Code § 454.9 provides that:

"The costs, including capital costs, recorded in the accounts set forth in subdivision (a) shall be recoverable in rates following a request by

the affected utility, a commission finding of their reasonableness, and approval by the commission.

"The Commission shall hold expedited proceedings in response to utility applications to recover the costs associated with catastrophic events."

DRA contends that the requirement for expedited hearings appears to be based on a legislative concern that the utilities have the ability to restore services in a timely fashion. This is substantiated by the statutory language. In adopting the statute as an emergency measure, the Legislature made the following finding:

"In order to ensure that the Public Utilities Commission acts immediately to approve all reasonable utility requests to restore utility services impaired by the Northridge earthquake so as to protect the public health and welfare, it is necessary that this act take effect immediately." (1994 California Statutes, Chapter 1156, Sec. 2.)

We find that it is reasonable to adopt the proposed procedural schedule and grant the requested interim rate relief. The proposed schedule does not appear to conflict with the intent of PU Code § 454.9. A final determination in this case is not imminent and we have regularly pursued our authority in authorizing such interim rates. (44 Cal.3d 870; D.93-04-059, mimeo. at 4.) Ratepayers are protected since all costs and revenues associated with these expenditures are tracked in the CEMA memorandum account and are therefore subject to adjustment and refund, depending on the results of DRA's audit and our ultimate findings. Pursuant to the requirements of Resolution E-3238, we will closely review the reasonableness of the costs recorded in the memorandum account before making a final determination that such costs are recoverable from ratepayers.

Granting interim rate relief does not prejudice the final determinations in this case. Neither SDG&E, TURN, nor any other

party are precluded from raising issues and concerns once we determine a schedule for reviewing the application more thoroughly.

At this time, we do not authorize SoCalGas to recover in rates any claims relating to third-party damages. In addition, we make no final conclusions as to cost allocation. We will reach these decisions only after thoroughly reviewing SoCalGas' showing, DRA's audit report, and other testimony and evidence tested in evidentiary hearings. We direct the assigned ALJ to hold a PHC as soon as practicable after the filing of DRA's audit report and SoCalGas' response.

Findings of Fact

1. The Northridge earthquake occurring on January 17, 1994 was an extraordinary event and was declared a disaster by competent state and federal agencies.

2. SoCalGas has recorded its costs in its CEMA account, consistent with the directives of Resolution E-3238.

3. DRA and SoCalGas have proposed a procedural schedule that allows DRA to file its audit report on September 30, 1996.

4. A final determination in this case is not imminent.

5. All costs and revenues will be tracked in the CEMA account.

6. Ratepayers are protected because all costs and revenues are subject to adjustment and refund, contingent upon our final review of these costs and DRA's audit.

Conclusions of Law

1. It is reasonable to grant SoCalGas' request for interim rate relief, subject to refund.

2. Granting interim rate relief is consistent with the requirements of PU Code § 454.9.

3. This order should be effective today to allow rate changes to be implemented in a timely fashion.

INTERIM ORDER

IT IS ORDERED that:

1. Southern California Gas Company (SoCalGas) is authorized to recover \$22.345 million in rates, subject to refund, to provide relief for incremental earthquake-related costs recorded in its Catastrophic Event Memorandum Account (CEMA). SoCalGas may file an advice letter to recover its incremental earthquake-related costs on an equal percentage of marginal cost (EPMC) basis. The advice letter shall be effective on filing.

2. The Division of Ratepayer Advocates (DRA) shall perform a reasonableness review audit of the charges recorded in SoCalGas' CEMA account and shall file and serve its report to all parties of record in Application (A.) 93-12-043 by September 30, 1996.

3. SoCalGas shall file and serve its response to the DRA audit report by October 31, 1996 to all parties of record in A.93-12-043.

4. Cost allocation issues and the reasonableness of any costs related to third-party damage claims shall be determined in later phases of this proceeding.

5. The assigned administrative law judge shall schedule a pre-hearing conference in this matter as soon as is practicable after SoCalGas files its response to DRA's report.

This order is effective today.

Dated December 18, 1995, at San Francisco, California.

DANIEL Wm. FESSLER
President
P. GREGORY CONLON
JESSIE J. KNIGHT, JR.
HENRY M. DUQUE
JOSIAH L. NEEPER
Commissioners