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Decision 97-06-064 June 11, 1997

**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)

**ORIGINAL**

(See Decision 95-12-040 for appearances.)

Additional Appearances

Steven D. Patrick, Attorney at Law, for Southern California  
Gas Company, applicant.  
Rodney Winter, for San Diego Gas & Electric Company,  
interested party.

**O P I N I O N**

This decision grants Southern California Gas Company (SoCalGas) recovery of \$16.504 million in costs entered into its Catastrophic Event Memorandum Account (CEMA). Specifically, we make permanent the interim rate relief granted in Decision (D.) 95-12-040 with an adjustment to reflect insurance reimbursements for capital costs incurred as a result of earthquake damage.

**Background**

SoCalGas filed this application on December 9, 1994 seeking to recover \$23.006 million in costs associated with the earthquake that occurred in Northridge, north of Los Angeles, on January 17, 1994. As a result of the earthquake, SoCalGas states its system sustained substantial damage, causing outages affecting 150,000 customers. SoCalGas reports that the total cost to restore service and repair earthquake damage to SoCalGas' system is estimated to be \$60.047 million. SoCalGas entered certain of those costs into its CEMA, a balancing account designed to permit the utility to recover, dollar-for-dollar, the reasonable costs of repairing system damage after a catastrophic event.

In December 1995, we granted SoCalGas interim relief in D.95-12-040, which permitted SoCalGas to increase its rates by \$22.345 million. The decision made the increase subject to refund pending an audit by Commission staff. Subsequently, the

Division of Ratepayer Advocates (DRA)<sup>1</sup> submitted testimony stating DRA's opposition to two elements of SoCalGas' request. SoCalGas then filed rebuttal testimony and later supplemented that testimony with more current information. On April 10, 1997, the Commission held an evidentiary hearing and the matter was submitted. Today's decision resolves outstanding issues in this proceeding.

#### **SoCalGas' Request**

SoCalGas seeks recovery of \$23.006 million entered into the CEMA. The costs entered into the CEMA are only operations and maintenance costs. It does not seek recovery here of costs associated with capital costs and associated tax benefits or expenses already covered in rates. It has reduced the entries in the CEMA by insurance reimbursements for operations and maintenance costs, but not those associated with capital investments. It proposes that those benefits be entered into capital accounts and be recovered coincident with the depreciable lives of the plant. SoCalGas recommends this ratemaking treatment on the basis that it will reduce rate base and thereby benefit future customers. SoCalGas states this approach is consistent with accounting principles which SoCalGas believes provide that insurance proceeds for capital investments should be treated as capital cost offsets.

#### **ORA's Position**

ORA reviewed SoCalGas' request and is satisfied that SoCalGas appropriately entered only the incremental costs of earthquake damage into the account. ORA takes exception to two elements of SoCalGas' request, however.

First, ORA recommends that the Commission offset \$6.5 million of the account balance to reflect insurance proceeds received for repairs on plant facilities damaged by the earthquake. ORA does not agree with SoCalGas' view of accounting standards. ORA instead recommends a ratemaking treatment for the proceeds which would benefit ratepayers today rather than requiring them to wait.

Second, ORA recommends that SoCalGas credit or charge the CEMA account until the statute of limitations expires on January 17, 1997 for claims related to the

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<sup>1</sup> Effective September 10, 1996, the Executive Director directed that DRA's organizational responsibilities be assumed by the new Office of Ratepayer Advocates (ORA). Former DRA professional staff working on this proceeding are redeployed to ORA.

earthquake. This matter was resolved with SoCalGas' statement that as of January 17, 1997, it had resolved all third party claims and sought no recovery of such claims here.

#### **Discussion**

We agree with ORA that SoCalGas should not be able to retain the insurance proceeds associated with earthquake-related capital investments. Ratepayers have paid the insurance premiums which have resulted in insurance proceeds to SoCalGas. Insurance coverage is an investment. The return on that investment by ratepayers was the insurance reimbursement to SoCalGas after the earthquake.

SoCalGas essentially asks ratepayers to fund its insurance costs as they are incurred and then spread the associated benefits over 20 to 30 years. It does so on the basis that the "matching concept" described in Financial Accounting Standards recommends that costs associated with particular revenues should be recognized as reductions of those revenues. In the spirit of "matching," we believe it more equitable to allocate the benefits of the insurance coverage the same way we have allocated the costs. Future ratepayers will have to support a slightly higher rate base but are not unfairly disadvantaged because they will not have funded the associated insurance costs.

We will order SoCalGas to refund to ratepayers the \$6.5 million plus interest in insurance proceeds. The final amount refunded to ratepayers will be adjusted to account for the difference between the amount SoCalGas was permitted to recover in D.95-12-040 and the amount of SoCalGas' final accounting.

#### **Findings of Fact**

1. SoCalGas entered into its CEMA about \$23.006 million to reflect the operations and maintenance costs associated with the Northridge earthquake which occurred January 17, 1994.

2. D.95-12-040 granted SoCalGas recovery of \$22.345 subject to refund pending a final review and audit of the CEMA entries.

3. SoCalGas seeks to reduce capital accounts by insurance reimbursements for capital expenditures.

4. SoCalGas does not seek recovery of third party claims here.

5. Ratepayers paid the insurance premiums associated with the capital cost insurance reimbursements of \$6.5 million.

**Conclusions of Law**

1. The Commission should make permanent the rate relief granted to SoCalGas in D.95-12-040 with the exception that SoCalGas should be required to reduce the amount by \$6.5 million plus interest, adjusted for the difference between the rate increase authorized in D.95-12-040 and the amount of SoCalGas' final request.

2. Since no other matters are pending in this proceeding, the Commission should close A.94-12-006.

**O R D E R**

**IT IS ORDERED that:**

1. Except as set forth in Ordering Paragraph 2 of this decision, Southern California Gas Company's (SoCalGas) request for permanent rate relief in this proceeding is granted.

2. SoCalGas shall refund to ratepayers on an equal percentage of marginal costs basis \$6.5 million plus interest by way of advice letter. The amount shall be adjusted to account for the difference between the amount authorized by Decision 95-12-040 and the amount of SoCalGas' final request, \$23.006 million. SoCalGas may defer filing of the advice letter until such time as it seeks other rate relief but must file no later than November 1997.

3. Application 94-12-006 is closed.

This order is effective today.

Dated June 11, 1997, at San Francisco, California.

P. GREGORY CONLON  
President  
JESSIE J. KNIGHT, JR.  
HENRY M. DUQUE  
JOSIAH L. NEEPER  
RICHARD A. BILAS  
Commissioners