

Decision 98-12-038 December 17, 1998

**BEFORE THE PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA**

Application of San Diego Gas & Electric Company (SDG&E) for Authority to Implement a Distribution Performance-Based Ratemaking Mechanism (U 902-M).

Application 98-01-014  
(Filed January 16, 1998)

**INTERIM OPINION REGARDING  
SAN DIEGO GAS & ELECTRIC COMPANY'S  
DISTRIBUTION PERFORMANCE-BASED RATEMAKING MECHANISM**

**Summary**

In this decision, we consider the cost of service issues addressed by an all-party settlement as the starting point for the San Diego Gas & Electric Company (SDG&E) proposed distribution performance-based ratemaking (PBR) mechanism. We adopt the settlement agreement proposed by SDG&E, the Office of Ratepayer Advocates (ORA), the Utility Consumers' Action Network (UCAN), and the Federal Executive Agencies (FEA). This agreement is an all-party settlement and resolves all issues raised in connection with the requested base rate revenue requirement. All dollar amounts expressed in the settlement are in 1996 dollars unless otherwise noted. Parties agree on an escalation methodology and will update these expense amounts to 1999 dollars but will not exceed the total revenue requirement contained in the settlement agreement. The settlement agreement is attached as Attachment 1 to this order. Issues regarding the distribution PBR mechanism itself, including design and performance indicators, are not addressed in the settlement and will be considered in a forthcoming decision.

Including expected Demand-side Management shareholder incentives and compared to revenues at present rates, the settlement results in a requested decrease of \$14,210,000 in the electric department operating revenue (2.46% decrease as a system average rate change as opposed to SDG&E's requested 8.05% increase) and an increase of \$3,894,000 for the gas department operating revenue (1.97% increase on a system average basis compared to SDG&E's requested 15.24% increase.) The effect for combined departments is a \$10,316,000 decrease, (1.33% decrease on a system average basis compared to SDG&E's proposed 9.84% increase). The revenue requirements developed from adopting the settlement agreement are used as the starting point for the distribution PBR mechanism that will be considered in forthcoming decisions. While parties agreed on an expenditure level for tree trimming expenses, parties also recommend that all tree trimming costs, less brush management and other non-tree trimming costs, be subject to a one-way balancing account.

#### **Procedural History**

In Decision (D.) 97-12-041, we ordered SDG&B to file a cost of service study in order to set the initial rates for its distribution PBR mechanism. On January 6, 1998, SDG&B filed Application (A.) 98-01-014 to request authority to establish a new authorized level for electric distribution and gas base rate revenues based upon its 1999 cost of service study. ORA and UCAN filed timely protests, to which SDG&B filed a reply. SDG&E, ORA, and UCAN (jointly for UCAN, the Natural Resources Defense Council (NRDC), Enron, FEA, and City of San Diego) filed prehearing conference statements.

On January 1, 1998, Senate Bill (SB) 960 became effective, which established various procedures for our proceedings. These rules are delineated in Public Utilities (PU) Code §§ 1701, *et seq.* and Article 2.5 of our Rules of Practice and Procedure. In accordance with the SB 960 rules, this proceeding has been

categorized as ratesetting (ALJ 176-2986, as noticed in the Daily Calendar of February 6, 1998).

After a March 17 prehearing conference at which both Assigned Commissioner Neeper and Assigned Administrative Law Judge (ALJ) Minkin were present, Commissioner Neeper issued a scoping memo which designated ALJ Minkin as the principal hearing officer for this proceeding. The scoping memo set forth the issues to be included in this proceeding and established a procedural schedule, under which the Commission would issue a final decision in this proceeding by March 1999, or in no event later than 18 months from the date of filing of the application, pursuant to SB 960, Section 13. Commissioner Neeper also encouraged parties to meet and confer on an informal basis in an attempt to resolve issues.

At the request of parties, the scoping memo was amended to revise the procedural schedule and set a second prehearing conference on August 10. ORA and UCAN submitted reviews of SDG&E's 1999 cost of service study on July 3, and SDG&E submitted rebuttal testimony on July 31, 1998. Informal discussions among the parties led to two technical workshops held in San Francisco on August 5 and 17. A formal settlement conference was noticed on August 18, in conformance with Rule 51, and held on August 27. SDG&E, ORA, UCAN and FEA filed and served the Joint Motion for Adoption of Settlement Agreement on August 28, 1998. SDG&E, CAUSE and the City of San Diego filed comments on a timely basis. No party filed reply comments. On September 25, settling parties filed a joint response to several questions propounded by the assigned ALJ. No evidentiary hearings have been held on the issues considered in this decision.

### **Background**

The purpose of the cost of service study is to determine the revenue requirements and corresponding rates to be used as a starting point for the

distribution PBR mechanism. The cost of service study is similar in form to what SDG&E would have filed in a general rate case, but its scope is limited to electric distribution and gas supply, storage, transmission, and distribution costs. As updated by its errata filing of June 4, SDG&E requested a \$45.8 million increase in electric distribution revenue requirements, an 8.05 % increase and a \$28.9 million increase for gas department revenue requirements, a 15.2% increase.

In contrast, ORA recommended a decrease of \$63.9 million or -11.1% for electric distribution and an increase of \$11.4 million or 6.1% for the gas department (Exhibit 37). ORA filed a separate report reviewing SDG&E's cost of service study in detail, although its review was not as thorough as that conducted for traditional energy general rate cases, due to staffing constraints and the abbreviated schedule of this proceeding as compared to a GRC proceeding.

UCAN also reviewed SDG&E's cost of service report and made several recommendations, including a \$21.3 million decrease in electric distribution expenditures and a \$1 million increase in gas expenditures.

#### **The Proposed Settlement**

In comparison to SDG&E's requested combined revenues of \$833,229,000, the settlement recommends a total operating revenue of \$764,781,000 for the combined electric and gas departments including miscellaneous revenues. Including expected Demand-side Management shareholder incentives and compared to revenues at present rates, the settlement results in a requested decrease of \$14,210,000 in the electric department (2.46% decrease as a system average rate change) and an increase of \$3,894,000 for the gas department (1.97% increase on a system average basis). The effect for the combined departments is a \$10,316,000 decrease, (1.33% decrease on a system average basis). Attachment 2 details how the proposed settlement compares to SDG&E's request.

We highlight certain important recommendations contained in the settlement agreement. First, while parties agreed on an expenditure level for tree trimming expenses for 1999, they were unable to agree on a recommended expenditure level for 2000 - 2002. Parties, therefore, recommend that all tree trimming costs less brush management and other non-tree trimming costs be subject to a one-way balancing account. Therefore, to the extent SDG&E incurs less than \$30.2 million (in 1999 dollars) in tree trimming expenditures, these amounts will be credited to the Transition Cost Balancing Account (TCBA) on an annual basis. After transition cost recovery through the TCBA is complete, any under expenditures will be refunded to customers on an annual basis. Tree trimming costs will not be subject to the PBR sharing mechanism. For the duration of the adopted PBR period, revenues and incurred expenses for tree trimming will be removed from recorded base rate revenue expenses before SDG&E calculates its actual earned rate of return for revenue sharing purposes.

SDG&E divides its tree trimming plan into two different areas that are governed by separate state regulations. In one area, tree trimming is governed by § 4293 of the California Code of Public Resources. These areas are known as California Department of Forestry (CDF) areas. Tree trimming in the remaining areas is governed by the Commission's General Order 95, Rule 35. These areas are known as non-CDF areas.

SDG&E's cost estimates are based on an inventory level of approximately 440,000 trees, 54% of which are designated as "fast-growers." SDG&E has committed to developing improved information tracking and inventory maintenance of its tree inventory, which SDG&E expects will be in place by the end of September 1999. At that time, should SDG&E find that it overestimated its initial costs, it will credit an appropriate amount (based on agreed-upon

methodology) through an annual adjustment to the TCBA. SDG&E has agreed to submit a separate report on these findings by March 31, 2000.

Parties have agreed that the following objectives are appropriate for SDG&E's tree trimming activities in the 1999-2002 time period:

- SDG&E will ensure safe and reliable delivery of electricity.
- SDG&E will comply with all current rules and regulations pertaining to tree maintenance.
- SDG&E will seek to reduce its tree-trimming costs by 50%.
- SDG&E will seek community input to its tree maintenance program and procedures.
- SDG&E will promote use of cost-effective techniques identified in a cost/benefit study, addressing potential alternatives to tree trimming maintenance activities.
- SDG&E will seek to establish an average trim cycle of no less than 12 months for fast-growing species.

In order to accomplish these objectives, parties have agreed to an action plan. First, SDG&E will submit an annual progress report on March 31 of each year, covering the previous calendar year. Second, SDG&E will conduct a cost/benefit study addressing potential alternatives to tree trimming maintenance activities. This report will be issued by March 31, 2000. Parties agree that communities and individuals must have the opportunity to learn about SDG&E's policies for tree trimming, removal, and/or undergrounding. SDG&E will focus its initial tree removal/replacement activities in CDF and non-CDF areas with a high probability of positive outcomes. SDG&E agrees to implement an outreach program for those communities impacted in non-CDF territory. Finally, the parties agree to support an SDG&E request that the Commission terminate the balancing account treatment of tree maintenance costs

at the time SDG&E is able to achieve and document a 50% reduction from its 1999 adjusted maintenance budget.

In addition, parties agree that SDG&E will not seek recovery of direct access Operations & Maintenance (O&M) costs of \$5,718,595 (in 1996 dollars) in this application. Parties also agree that \$13.8 million of direct access-related rate base additions will not be recovered in this proceeding. Instead, SDG&E will seek recovery of these expenses and rate base additions through A.98-05-006, which is the proceeding addressing restructuring implementation costs under PU Code § 376. Parties request that if SDG&E is not granted recovery in this forum, SDG&E should be allowed to record these costs in a newly established memorandum account and be able to seek the recorded and forecasted expenditures through a separate application.

In comments on the settlement agreement, SDG&E clarifies that it will not book any costs attributable to senior executive retirement plans or executive bonuses above the line for the purposes of earning sharing during the period 1999 - 2002. If such expense are incurred, SDG&E will remove those recorded dollars from its recorded base rate revenue expenses before calculating its actual earned rate of return for revenue sharing purposes.

The ALJ asked parties to provide an exhibit reflecting updated O&M expenses in 1999 dollars based on the updated escalation factors contained in Exhibit 28. (See Attachment 3.) When the updated labor and non-labor escalation factors were applied on a specific labor and non-labor basis to each O&M account category, the non-labor amount was slightly lower than the settlement amount and the labor amount was greater. This discrepancy results in a net higher combined escalation figure; however, settling parties recommend that the total revenue requirement contained in the settlement agreement should

not be increased. Settling parties propose that the labor and non-labor numbers contained in the settlement agreement be used.

### Discussion

This is an "uncontested settlement" as defined in Rule 51(f), i.e., a settlement that "...is not contested by any party to the proceeding within the comment period after service of the stipulation or settlement on all parties to the proceeding." Rule 51(e) requires that settlement agreements be reasonable in light of the whole record, consistent with law, and in the public interest.

D.92-12-019 dealt with a settlement of SDG&E 1993 General Rate Case. In that decision, the Commission outlined four criteria that must be satisfied in order for the Commission to approve an all-party settlement. The proposed settlement must specify:

- "a. that it commands the unanimous sponsorship of all active parties to the instant proceeding;
- "b. that the sponsoring parties are fairly reflective of the affected interests;
- "c. that no term of the settlement contravenes statutory provisions or prior commission decisions; ...and
- "d. that the settlement conveys to the Commission sufficient information to discharge our future regulatory obligations with respect to the parties and their interests." (D.92-12-019, 46 CPUC2d 538, 500-551 (1992).)



We are satisfied that the proposed settlement commands the sponsorship of all active parties sponsoring testimony on cost of service issues.<sup>1</sup> The sponsoring parties reflect a broad spectrum of affected interests. ORA represents ratepayers in general, while UCAN represents residential and small commercial ratepayers in particular. Large customers and governmental interests are represented by FEA, and SDG&E is obviously considering the impact of the settlement on its shareholders.

The settlement is reasonable in light of the whole record and does not contravene any statute or prior Commission decision. We note that D.97-08-056 prohibits reallocation of fixed administrative and general (A&G) expenses during the two-year term of contracts entered into under Section 363. (D.97-08-056, mimeo., at pp. 23 - 24.) We will not reject the settlement on this issue, because there will be a corresponding reduction in the authorized revenue requirement, and a reduction in the electric distribution rate should SDG&E is able to recover any of these costs through a maintenance contract, as D.97-08-056 anticipated. In addition, settlements do not set precedent. We put parties on notice that settlements which contravene prior decisions will not be approved.

SDG&E submitted extensive testimony and workpapers supporting its recommended revenue requirement increases. Similarly, ORA and UCAN conducted thorough investigations and analysis of SDG&E's request and developed their own recommendations. Thus, the extensive testimony served by the settling parties provides sufficient information to the Commission to properly

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<sup>1</sup> In comments, California Alliance for Utility Safety and Education (CAUSE) agrees to and supports only Section III.C.6 (Free Trimming) and takes no position on the remainder of the proposed settlement agreement.

judge the reasonableness of the settlement and to discharge its future regulatory responsibilities. Parties have included a comparison exhibit, pursuant to Rule 51.1(c), which allows us to compare original positions to the proposed settlement amounts. The settlement is the result of the parties compromising and reaching agreement on their widely divergent positions, resulting in agreement on 1999 sales estimates, gas supply expenses, gas storage expenses, gas transmission expenses, gas distribution expenses, and electric distribution expenses, as well as customer accounting and collection expenses, customer service and information expenses, and administrative and general expense for the combined departments. The settlement also develops a weighted average rate base for both the electric and gas departments, and the associated depreciation and amortization expense, and the corresponding tax calculations.

For purposes of electric distribution sales, the Commission will assume that the 1999 electric distribution sales amount should be the total sales amount stated in the settlement less the transmission sales amount of 824 gigawatt hours, as stated in SDG&E's June 4, 1998 Errata, Table 13-A.

We are satisfied that this settlement is in the public interest. The settlement is consistent with PU Code § 454, which requires that rates be just and reasonable. Had the cost of services issues been litigated on the electric side, for example, the Commission would have balanced the ratepayers' and shareholders' interests to determine whether an increase in electric distribution rates of 8.05% was justified as SDG&E proposed, whether a decrease of 9.5% was justified, as ORA proposed, or whether some other rate adjustment was appropriate. We are satisfied that the 2.46% decrease on the electric side and 1.97% increase on the gas side represent a reasonable solution that avoids protracted, costly litigation. We will adopt the escalation figures and revenue requirement contained in the settlement agreement.

Some explanation is in order regarding the change in electric distribution rates. In D.96-12-077, following the directives of the Legislature in PU Code § 368(a), we instituted a rate freeze on total electric rates at the June 10, 1996 levels, beginning January 1, 1997. The rate freeze means that rates are frozen at the levels shown on the rate schedules in place as of June 10, 1996; however, within the level of the frozen rates the Commission retains the ability to adopt rate components that differ from those components in place as of June 10, 1996, subject to the firewall and proportional cost recovery required by PU Code § 367(e) and the prohibition on cost shifting of PU Code § 368(b). (D.96-12-077, mimeo., at p. 8.) Pursuant to the directives of PU Code § 368(b), in D.97-08-056, we unbundled the rates of the major investor-owned electric utilities, including SDG&E. Revenue requirements and their corresponding rates were separated into their components: generation, distribution, transmission, public purpose, and nuclear decommissioning. Any remaining revenues are then allocated to the competition transition charge (CTC). This concept of applying residual revenues to transition cost recovery is known as headroom. In this proceeding, we are developing a new electric distribution rate and a new gas transmission and distribution rate for SDG&E. There is no rate freeze in place for gas. While the total electric rate for SDG&E remains unchanged, the distribution component will now be decreased, which will result in increased headroom.

#### **Comments on Draft Decision**

SDG&E filed timely comments. We have incorporated the suggested technical corrections in the body of the decision and attachments, as appropriate.

#### **Findings of Fact**

1. SDG&E, ORA, UCAN, and FEA filed a joint motion seeking Commission approval of a settlement resolving cost of service issues in this proceeding.

2. There is no known opposition to approving the settlement, and no need to hold a hearing on these issues.

3. The settlement satisfies the Commission criteria for an all-party settlement, as set forth in our Rules of Practice and Procedure and D.92-12-019.

4. All dollar amounts expressed in the settlement are in 1996 dollars unless otherwise noted. Parties agree on an escalation methodology and have updated these expense amounts to 1999 dollars, subject to the ceiling of the proposed revenue requirement in the settlement agreement.

5. The total electric distribution sales amount should be the total sales amount stated in the settlement less the transmission sales amount of 824 gigawatt hours, as stated in SDG&E's June 4, 1998 Errata, Table 13-A.

#### **Conclusions of Law**

1. The settlement is an "uncontested settlement" as defined in Rule 51(f).
2. The settlement is reasonable in light of the whole record, consistent with law, and in the public interest.
3. The settlement should be approved.
4. This order should be effective today, so that rate changes can be implemented on a timely basis.

#### **INTERIM ORDER**

**IT IS ORDERED that:**

1. The Joint Motion for Adoption of Settlement Agreement in San Diego Gas & Electric Company's (SDG&E) Application 98-01-014 is granted.
2. The Settlement Agreement is attached to this decision as Attachment 1 and is adopted as reasonable in light of the whole record, consistent with the law, and in the public interest.

3. SDG&E is authorized to recover the amount of revenues set forth in the Settlement Agreement and associated attachments commencing January 1, 1999. SDG&E shall file a compliance advice letter implementing all required tariff changes necessitated by this decision within 10 days of the effective date of this decision. This advice letter shall include update expense amounts to 1999 dollars using the most current escalation numbers and methodology as agreed to by the parties.

This order is effective today.

Dated December 17, 1998, at San Francisco, California.

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

BEFORE THE PUBLIC UTILITIES COMMISSION  
OF THE STATE OF CALIFORNIA

Application of San Diego Gas & Electric )  
Company (SDG&E) for Authority to )  
Implement a Distribution Performance-Based )  
Ratemaking Mechanism (U-902-M) )

A.98-01-014

SETTLEMENT AGREEMENT

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August 27, 1998

TABLE OF CONTENTS

1  
2  
3  
4  
5  
6  
7  
8  
9  
10  
11  
12  
13  
14  
15  
16  
17  
18  
19  
20  
21  
22  
23  
24  
25  
26  
27  
28

	<u>Page</u>
I. PARTIES.....	1
II. RECITALS.....	1
A. SCOPE OF THE AGREEMENT.....	1
B. SDG&E'S PRESENTATION.....	2
C. ORA'S PRESENTATION.....	2
D. UCAN'S PRESENTATION.....	3
E. SETTLEMENT NEGOTIATION PROCESS.....	3
III. AGREEMENT.....	3
A. REVENUES.....	4
B. SALES.....	5
C. OPERATIONS AND MAINTENANCE ("O&M") EXPENSE.....	5
D. DEPRECIATION.....	10
E. RATE BASE.....	10
F. REVENUE ALLOCATION ISSUE.....	11
IV. ADDITIONAL TERMS AND CONDITION.....	12
A. TERM OF SETTLEMENT AGREEMENT.....	12
B. OBLIGATION TO PROMOTE APPROVAL.....	12
C. PUBLIC INTEREST.....	13
D. NON-PRECEDENTIAL EFFECT.....	13
E. INDIVISIBILITY.....	13

1	F. LIABILITY.....	14
2	H. INTERPRETATION.....	14
3		
4	I. NO WAIVER.....	15
5	J. AMENDMENT/SEVERABILITY.....	15
6	K. COUNTERPARTS.....	15
7		
8	L. APPENDICES.....	15
9	M. EXECUTION.....	16
10		
11		
12		
13		
14		
15		
16		
17		
18		
19		
20		
21		
22		
23		
24		
25		
26		
27		
28		



BEFORE THE PUBLIC UTILITIES COMMISSION  
OF THE STATE OF CALIFORNIA

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Application of San Diego Gas & Electric )  
Company (SDG&E) for Authority to )  
Implement a Distribution Performance-Based )  
Ratemaking Mechanism (U-902-M) )

A.98-01-014

SETTLEMENT AGREEMENT

I.

PARTIES

The parties to this Settlement Agreement are the Office of Ratepayer Advocates ("ORA"), Utility Consumers Action Network ("UCAN"), the Federal Executive Agencies ("FEA"), and San Diego Gas & Electric Company ("SDG&E") (all hereinafter referred to collectively as the "Parties").

II.

RECITALS

A. SCOPE OF THE AGREEMENT

On January 16, 1998, SDG&E filed an application for authority to establish a new authorized level for electric distribution and gas base rate revenues based upon its 1999 Cost of Service Study submitted in support of the application. SDG&E's application also requested authority to implement the Distribution Performance-Based Ratemaking ("PBR") mechanism presented in the application. This Settlement Agreement resolves or otherwise disposes of all issues raised in connection with the requested base rate revenue requirement. The PBR mechanism proposal is not addressed in this Settlement Agreement.

1 B. SDG&E'S PRESENTATION

2 SDG&E's 1999 Cost of Service Study presents in 15 chapters of prepared direct  
3 testimony the results of a comprehensive examination of SDG&E's electric distribution and gas  
4 operations. The vast majority of this material was first made available to the Parties on January  
5 16, 1998. This showing is supported by several thousand pages of workpapers which have been  
6 provided to ORA, UCAN and other participants and responses to over 1,600 data request  
7 questions. On April 20, 1998 SDG&E supplemented its initial presentation with testimony  
8 addressing the forecasted impacts of the pending merger between ENOVA (SDG&E's parent  
9 company) and Pacific Enterprises (parent company of Southern California Gas) on SDG&E's  
10 1999 operating costs. This supplemental testimony also addressed the reallocation of fixed  
11 administrative and general ("A&G") expenses from electric generation activities to the electric  
12 distribution function. Following the service of intervenor testimony on July 3, 1998, SDG&E  
13 distributed 11 additional chapters of prepared rebuttal testimony on July 31, 1998.

14 C. ORA'S PRESENTATION

15  
16 ORA is the staff component of the California Public Utilities Commission ("CPUC")  
17 responsible for representing the perspective of utility customers in CPUC proceedings. In that  
18 capacity ORA staff members conducted a thorough review of SDG&E's Cost of Service Study  
19 beginning in January, 1998 and culminating in the service on July 3, 1998 of its 11 chapter  
20 report, addressing virtually every element of SDG&E's Cost of Service Study. Throughout the  
21 nearly 6 month review period, ORA experts conducted extensive inquiry concerning the  
22 estimates and underlying assumptions presented in SDG&E's testimony and workpapers. In all,  
23 ORA propounded to SDG&E more than 600 questions and requests for information and  
24 documentary support. These requests probed virtually every element of SDG&E's testimony.  
25 The Parties believe ORA's review of SDG&E's application and supporting materials was both  
26 thorough and well-documented.  
27  
28

1 D. UCAN'S PRESENTATION

2 UCAN, a San Diego-based ratepayer advocacy group, also conducted detailed analyses  
3 of SDG&E's Cost of Service Study. It performed this work in consultation with its expert  
4 consultant JBS Energy, Inc. UCAN's findings were published on July 3, 1998 in an extensive  
5 review of SDG&E's estimated revenues, expenses, and projected capital projects. Like ORA,  
6 UCAN conducted extensive discovery, including issuing over 700 questions for data and  
7 information.

8  
9 E. SETTLEMENT NEGOTIATION PROCESS

10 Shortly after the distribution of the ORA and UCAN reports, the parties began  
11 discussions of the similarities and differences in positions each intended to advocate before the  
12 Commission. These discussions included two technical workshops held in San Francisco on  
13 August 5th and 17th. The first of these workshops was organized by UCAN and ORA and was  
14 noticed on July 28, by UCAN. The second workshop was noticed on August 13 by SDG&E. In  
15 addition, a formal settlement conference was noticed on August 18 and held on August 27.  
16 These discussions ultimately produced agreement by all parties to a set of projected revenues,  
17 expenses and sales levels which the parties have memorialized in this Settlement Agreement for  
18 presentation to the CPUC as a just and reasonable resolution of the corresponding issues  
19 presented in SDG&E's January 16, 1998 application.

20 III.

21 AGREEMENT

22  
23 A genuine dispute has existed among the Parties concerning the level of 1999 electric  
24 distribution and gas department base rate revenue which the Commission should authorize for  
25 SDG&E. Accordingly, the parties to this settlement agree to resolve all issues of which each of  
26 them is aware pertaining to SDG&E's 1999 Cost of Service Study and the associated base rate  
27 revenue requirement proposals in the manner set forth below. The parties regard this Settlement  
28 Agreement as a package, the resolution of which reflects substantial compromise among the

1 parties. The resolved issues are interrelated and no issue or term of the Settlement Agreement  
2 should be evaluated in isolation from the remainder of the package. (See Section IV-E,  
3 Indivisibility, below). However, CAUSE agrees to and supports only Section III C.6 (Tree  
4 Trimming) below, and takes no position on the remainder of this Settlement Agreement.

5 As compared to SDG&E's request for total authorized revenues of \$833,229,000  
6 (excluding DSM rewards), this Settlement Agreement results in total authorized revenues of  
7 \$764,781,000. Each party urges the Commission to approve this outcome and the various  
8 compromises which produce it as a fair and reasonable resolution of the issues. Each party  
9 hereby declares and represents that it has reached this determination, and is executing this  
10 Settlement Agreement, after consultation with its own legal counsel.

11 Appendix A to this Settlement Agreement contains three Summary of Earnings tables  
12 (combined, electric and gas). These tables set forth the positions expressed in SDG&E's  
13 application, errata and testimony, and in each of the reports prepared by ORA and UCAN. The  
14 final column on each table labeled "Settlement" presents the levels of expense (by functional  
15 area), revenue and rate base agreed upon by the parties, subject to: 1) any change in SDG&E's  
16 authorized cost of capital for the 1999 calendar year, and 2) any other adjustments ordered by the  
17 CPUC.

18 For expenses, all dollar amounts expressed in this Settlement are in 1996 dollars unless  
19 otherwise noted. The Parties agree that these amounts shall be adjusted to 1999 dollars during  
20 the update phase of this proceeding using the most current escalation numbers. There is no  
21 dispute among the Parties regarding the methodology for updating escalation.

22 In addition to the agreements expressed in the "Settlement" column on each Summary of  
23 Earnings table, the parties agree as follows:

24  
25 A. REVENUES

26 The Parties agree that effective January 1, 1999, or as soon thereafter as the  
27 CPUC so orders, SDG&E's combined authorized revenues shall be \$764,781,000 plus DSM  
28 rewards of \$19,393,000 (electric) and \$1,604,000 (gas). This combined revenue level includes

1 gas interdepartmental revenues of \$11,389,000, electric distribution miscellaneous revenues of  
2 \$15,985,000 and gas department miscellaneous revenues of \$4,906,000. Any payments received  
3 by SDG&E from its affiliates in return for products or services shall be refunded to ratepayers  
4 by including the amount of such payments as an offset to any reward SDG&E earns under the  
5 preceding year's PBR calculation (or adding the amount of such payments to any penalty, as the  
6 case may be).

7  
8 **B. SALES**

9 The electric sales level adopted for calendar year 1999 shall be 17,270 kwhrs. This sales  
10 total includes transmission and distribution sales. The gas sales level adopted for calendar year  
11 1999 shall be 695.6mm Therms.

12  
13 **C. OPERATIONS AND MAINTENANCE ("O&M") EXPENSE**

14 **1. Authorized O&M Expense (\$1996)**

15 The Parties agree that the amount of O&M expenses that SDG&E shall be  
16 authorized to recover in rates in 1999 is \$274.912 million (in \$1996). Of this amount, \$190.064  
17 million is allocable to electric distribution service and \$84.848 million is allocable to gas service.

18  
19 **2. Forecast Methodology**

20 SDG&E, ORA and UCAN each base their respective expense forecasts to a  
21 significant degree on analyses of historical data. In most instances, the differences in their  
22 forecasts are the result of employing different forecast methodologies, such as: 1) trends, 2)  
23 averages, 3) zero-based estimating, 4) adjustments to recorded expenses, and 5) varying  
24 historical time periods. The Parties agree that the proper application of forecast methodologies  
25 requires the use of judgment and that, as in any forecasting exercise, there is a range of  
26 reasonable outcomes. The Parties also agree that different methodologies can produce results  
27 within this range and that no single methodology will produce the sole reasonable result in every  
28 instance. The level of 1999 expenses recommended by the parties is based upon their individual

1 judgments regarding the strengths and weaknesses of competing forecasting methodologies, and  
2 the resulting compromises each Party felt were reasonable. Except as specifically identified in  
3 this Settlement Agreement, the substantial differences among the Parties' initial positions in each  
4 major expense area were resolved through such judgments and compromises.

5 To the extent the parties have identified policy issues affecting 1999 expenses, such  
6 issues have been dealt with explicitly in this Settlement Agreement, or deferred to other  
7 Commission proceedings.

8  
9 3. Franchise Fees and Uncollectibles

10 The franchise fees portion of O&M expense has been calculated using franchise  
11 fee rates of 1.91% for electric and 2.16% for gas. The uncollectibles portion of O&M expense  
12 has been calculated of using rates of .289% for electric and .289% for gas. These rates are  
13 acceptable to the Parties. Because franchise fees and uncollectibles are calculated based on total  
14 revenues, they are stated in 1999 dollars throughout the Settlement Agreement. For electric  
15 distribution, the settlement includes \$10,228,000 for generation related franchise fees. If, in the  
16 future, the Commission authorizes a different recovery mechanism for generation related  
17 franchise fees, the amount included in electric distribution will be adjusted accordingly.

18  
19 4. Direct Access O&M Costs

20 The O&M costs presented in this Settlement Agreement do not include  
21 \$5,718,505 of direct access O&M costs which SDG&E initially requested to recover through  
22 this application. The Parties agree that SDG&E should seek recovery of these expenses through  
23 the CPUC proceeding which is addressing PU Code Section 376 expenses (SDG&E's  
24 Application 98-05-006). Should the Commission determine that any portion of the requested  
25 expenses are not Section 376 costs, SDG&E shall be allowed to record these costs in a newly  
26 established memorandum account and be able to seek the recorded and forecasted expenditures  
27 through a separate application.  
28

1 The \$5,718,505 in direct access O&M costs referred to above includes the following  
2 amounts which have been removed from SDG&E's forecast of expenses for the accounts  
3 specified, as follows:

4  
5 Account 580 - \$ 377,563  
6 Account 586 - \$ 760,188  
7 Account 902 - \$ 540,761  
8 Account 902 - \$ 230,474  
9 Account 903.1 - \$ 765,242  
10 Account 903.5 - \$ 843,420  
11 Account 903.6 - \$ 449,282  
12 Account 903.7 - \$ 118,782  
13 Account 910 - \$1,632,793

14  
15  
16 5. Hazardous Waste

17 The agreed upon estimate for Account 588 expenses excludes \$860,600 of  
18 forecasted hazardous waste costs. The Parties agree that SDG&E may pursue recovery of these  
19 excluded expenses through the Hazardous Waste Collaborative Process.

20  
21 6. Tree Trimming

22 As part of its cost of service filing, SDG&E has requested \$28.8 million (\$1996) (\$30.2  
23 million in \$1999) for company activities to comply with Rule 35 and with state regulations  
24 pertaining to tree maintenance. The company maintains that enhancement of these rules and  
25 heightened enforcement has led to a substantial increase in the costs of tree maintenance.  
26 Because of the uncertainty surrounding the strategies by which full compliance could be  
27 achieved and the data about the region's tree resources, the Parties were not able to agree to an  
28 appropriate budgetary amount for the period of 1999 through 2002.

However, the Parties were able to agree that the costs associated with tree trimming  
necessary to comply with both existing and new state and regulatory rules should be handled  
apart from other costs in the company's cost of service filing and will not be subject to the PBR  
indexing methodology or the sharing mechanism. The undersigned Parties recommend to the  
Commission that all tree trimming costs, less brush management and other non-tree trimming

1 costs, instead be subject to a one-way balancing account. To the extent SDG&E incurs less than  
2 the \$30.2 million (in \$1999), these amounts shall be credited to the Transition Cost Balancing  
3 Account (TCBA) on an annual basis. After recovery of CTC costs through the TCBA has been  
4 completed, any under expenditures will be refunded to customers on an annual basis.

5 In determining the appropriate costs for tree trimming within SDG&E's cost of service  
6 filing, the Parties agree that the Commission should adopt an expenditure level of \$30.2 million  
7 (in \$1999). Contained within this filing, SDG&E stated that its cost estimates were based upon  
8 an inventory level of approximately 440,000 trees, 54% of which were designated as "fast-  
9 growers". SDG&E is currently developing an information-systems based enhancement that will  
10 provide for improved information tracking and inventory maintenance of its tree inventory.  
11 SDG&E will make the results of this tree inventory available to the parties to this proceeding.  
12 After these improvements are in place (09/30/99 estimated), should SDG&E find that it over-  
13 estimated its initial costs, it will credit an appropriate amount (based on the methodology  
14 SDG&E used for calculating the \$30.2 million in SDG&E's response to UCAN Data Request  
15 No. 1, Question 20(c) and UCAN Data Request No. 5, Question 13) through an annual  
16 adjustment to the TCBA (SDG&E will submit a separate report on these findings by 3/31/2000).

17 In addition, the Parties agree that the company will adopt the following objectives in its  
18 tree trimming activities during the 1999-2002 period:

- 19
- 20 • It will ensure safe and reliable delivery of electricity.
  - 21 • It will comply with all current rules and regulations pertaining to tree maintenance.
  - 22 • It will seek to reduce its tree-trimming costs by 50%.
  - 23 • It will seek community input to its tree maintenance program and procedures.
  - 24 • It will promote use of cost-effective techniques identified in the study contained in  
paragraph b.
  - 25 • It will seek to establish an average trim cycle of no less than 12 months for fast-  
growing species.

26 In order to help achieve these objectives, the Parties have agreed to the following actions:

27 a. SDG&E agrees to submit to the parties to this proceeding an annual progress report on  
28 March 31st each year covering the previous calendar year. In this report, SDG&E will describe  
the steps and progress it has made in achieving each of the five objectives listed above. The



1 report will include, but is not limited to the number of trees trimmed and the cost per tree  
2 trimmed, the number and costs of removals and replacements, the number of customers who  
3 have rejected removal requests, the projected annual expenditures expected to be required for  
4 the coming year and identifying the obstacles that SDG&E has faced in its efforts to reduce  
5 those expenditures.

6 b. SDG&E agrees to conduct a cost/benefit study, addressing potential alternatives to  
7 tree trimming maintenance activities. The options include, but are not limited to, converting  
8 overhead to underground lines and tree removal/replacement. SDG&E will provide parties to  
9 this proceeding with a draft of its study design plan and allow parties to submit comments.  
10 SDG&E will submit its proposed design plan to parties by September 30, 1999 (this date allows  
11 SDG&E to incorporate any new information obtained from its tree trimming inventory) for  
12 comment by October 31, 1999 and issue its report by March 31, 2000.

13 c. The Parties agree that it is important that communities and individuals have the  
14 opportunity to learn about SDG&E's policies for tree trimming, removal, and/or  
15 undergrounding, and voice any concerns they may have regarding those policies. In order for  
16 this to happen, SDG&E will provide its tree maintenance policies to the parties and will  
17 participate in any community outreach efforts sponsored by the City of San Diego. The parties  
18 will share any expert information they developed in preparation for this proceeding with  
19 SDG&E to assist SDG&E in meeting its tree trimming objectives.

20 d. SDG&E agrees to focus its initial tree removal/replacement activities in CDF areas  
21 and in non-CDF areas with a high probability of positive outcomes. Prior to commencement of  
22 a broad-scale tree replacement program in non-CDF territory, SDG&E agrees to implement an  
23 outreach program in the communities directly impacted.

24 e. The Parties agree to support an SDG&E request that the Commission terminate the  
25 balancing account treatment of tree maintenance costs at the time the company is able to achieve  
26 and document a 50% reduction from its 1999 adjusted maintenance budget.

27  
28

1       7.     Administrative & General

2               The Parties have carefully evaluated the level of fixed A&G costs that SDG&E  
3     may be able to recover through contracts under which it will provide O&M services to its  
4     divested fossil fuel power plants, pursuant to PU Code Section 363. The Parties have agreed to  
5     an amount for this expense category of \$5,672,000 as the level of fixed A&G cost associated  
6     with these plants. The Parties agree that should SDG&E be able to recover any of these costs  
7     through a maintenance contract, it will make a corresponding downward adjustment to the  
8     authorized revenue requirement. In order to increase the incentive for SDG&E to negotiate a  
9     maintenance contract with the new owners of its generation facilities that will permit the highest  
10    recovery of fixed A&G expenses, the Parties agree that any under run of the fixed A&G costs  
11    associated with the maintenance contract for the divested plants (i.e., the \$5,672,000) will not be  
12    subject to any PBR revenue sharing mechanism.

13  
14       8.     Administrative and General, Pension and Benefits

15               The levels of A&G expense proposed in this Settlement Agreement do not  
16    include any amounts for ratepayer contribution to pension expense, senior executive retirement  
17    plans, executive bonuses, and severance costs.

18  
19       9.     PBOP Refund

20               SDG&E agrees refund to its customers \$1,429,153 related to revenue over-  
21    collections for PBOPs for the years 1993 through 1997.

22  
23    D.     DEPRECIATION

24               The parameters used by SDG&E during the PBR period shall be consistent with  
25    the depreciation parameters used to calculate the depreciation expense level in this settlement.

26  
27    E.     RATE BASE

28               The Parties agree to the rate base levels presented in Appendix A.

1           1.     Direct-Access-Related Additions

2                     The rate base estimates presented in this Settlement Agreement do not include  
3     \$13,810,000 of direct-access-related weighted rate base additions which SDG&E initially  
4     requested to address through this application. The Parties agree that SDG&E should seek  
5     recovery of these costs through the CPUC proceeding which is addressing PU Code Section 376  
6     costs (SDG&E's Application 98-05-006). Should the Commission determine that any portion of  
7     the requested rate base costs are not Section 376 costs, SDG&E shall be allowed to record these  
8     costs in a newly established memorandum account and be able to seek the recorded and  
9     forecasted expenditures through a separate application.

10  
11           2.     PU Code Section 851 Application (A.98-06-015)

12                     SDG&E has pending before the Commission an application (A.98-06-015) to sell its  
13     South Bay Service Center and Station A properties. The Parties agree that upon approval by the  
14     Commission and consummation of the subsequent sales, SDG&E will remove the revenue  
15     requirements associated with these properties from its authorized revenues.

16           F.     REVENUE ALLOCATION ISSUE

17  
18                     UCAN has proposed that the revenue allocation to customer classes of the forecasted  
19     franchise fees for generation services, included in the 1999 Test Year distribution revenue  
20     requirements as a result of the divestiture of the SDG&E generation units, be allocated using  
21     generation LRMC allocators instead of the SDG&E proposed distribution LRMC allocators.  
22     SDG&E agrees that the proposed UCAN approach is more theoretically correct and will revise  
23     the revenue allocation to customer classes for this franchise fee revenue requirement component.

## IV.

## ADDITIONAL TERMS AND CONDITION

## A. TERM OF SETTLEMENT AGREEMENT

The Parties agree that the levels of revenue, sales, expense, and rate base presented in this Settlement Agreement shall be in effect for the years 1999 through 2002, subject to adjustments dictated by any CPUC authorized PBR mechanism in effect and CPUC decisions altering SDG&E's base rate revenue requirement. The Parties further agree that SDG&E must file a study for the year 2003, similar to the 1999 Cost of Service Study presented in this proceeding. SDG&E shall file its 2003 Cost of Service Study with this Commission no later than December 21, 2001.

## B. OBLIGATION TO PROMOTE APPROVAL

The Parties agree to use their best efforts to propose, support and advocate adoption of this Settlement Agreement by the Commission. The Parties agree to perform diligently, and in good faith, all actions required or implied hereunder, including, but not necessarily limited to, the execution of any other documents required to effectuate the terms of this Settlement Agreement, and the preparation of exhibits for, and presentation of witnesses at, any required hearings to obtain the approval and adoption of this Settlement Agreement by the Commission. No Party to this Settlement Agreement will contest any aspect of this Settlement Agreement in any proceeding or in any other forum, by contact or communication, whether written or oral (including ex parte communications whether or not reportable under the Commission's Rule of Practice and Procedure) or in any other manner before this Commission.

The Parties further agree that they will use reasonable efforts to provide notice to the other Parties that they intend to enter into ex parte discussions with any Commission decision-maker regarding the recommendations contained in this Settlement Agreement, whether reportable under the Commission's Rules of Practice and Procedure, or not. Moreover, the

1 parties agree to actively and mutually defend this settlement if its adoption is opposed by any  
2 other party to the proceeding. The Parties understand and acknowledge that time is of essence in  
3 obtaining the Commission's approval of this Settlement Agreement and that each will extend its  
4 best efforts to insure the adoption of this Settlement Agreement.

5  
6 **C. PUBLIC INTEREST**

7 The Parties agree jointly by executing and submitting this Settlement Agreement that the  
8 relief requested herein is just, fair and reasonable, and in the public interest. The Parties  
9 acknowledge the value of including all active participants in this case and settlement process. In  
10 particular, the Parties acknowledge the contribution of both UCAN and ORA through their  
11 detailed reports, as well as the participation of all intervenors in the discovery and settlement  
12 negotiation phases of this proceeding. Each presented extensive substantiation of its positions  
13 during the negotiations and participated in an informed, expert manner.

14  
15 **D. NON-PRECEDENTIAL EFFECT**

16 This Settlement Agreement is not intended by the Parties to be a binding precedent for  
17 any future proceeding. The Parties have assented to the terms of this Settlement Agreement only  
18 for the purpose of arriving at the various compromises embodied in this Settlement Agreement.  
19 Each Party expressly reserves its right to advocate, in current and future proceedings, positions,  
20 principles, assumptions, arguments and methodologies which may be different than those  
21 underlying this Settlement Agreement and the parties expressly declare that, as provided in Rule  
22 51 of the Commission's Rules of Practice and Procedure, this Settlement Agreement should be  
23 not be considered as a precedent for or against them.

24  
25 **E. INDIVISIBILITY**

26 The Parties acknowledge that the positions expressed in this Settlement Agreement were  
27 reached after consideration of all positions advanced in the prepared testimony of SDG&E, ORA  
28 and UCAN, as well as numerous proposals offered by each of these and other Parties during the

1 settlement negotiations. This Settlement Agreement embodies compromises of the Parties'  
2 positions. No individual term of this Settlement Agreement is assented to by any Party except in  
3 consideration of the Parties' assents to all other terms. Thus, the Settlement Agreement is  
4 indivisible and each part is interdependent on each and all other parts.

5 Any party may withdraw from this Settlement Agreement if the Commission modifies,  
6 deletes from, or adds to the disposition of the matters stipulated herein. The Parties agree,  
7 however, to negotiate in good faith with regard to any Commission-ordered changes in order to  
8 restore the balance of benefits and burdens, and to exercise the right to withdraw only if such  
9 negotiations are unsuccessful.

#### 10 11 F. LIABILITY

12 The Parties further agree that no signatory to this Settlement Agreement, nor any  
13 member of the Staff of the Commission, assumes any personal liability as a result of this  
14 Settlement Agreement.

#### 15 16 G. GOVERNING LAW

17 This Settlement Agreement shall be governed by the laws of the State of California  
18 (without regard to conflicts of law principles) as to all matters, including, but not limited to,  
19 matters of validity, construction, effect, performance and remedies.

#### 20 21 H. INTERPRETATION

22 The section headings contained in this Settlement Agreement are solely for the purpose  
23 of reference, are not part of the agreement of the Parties, and shall not in any way affect the  
24 meaning or interpretation of this Settlement Agreement. All references in this Settlement  
25 Agreement to Sections are to Sections of this Settlement Agreement unless otherwise indicated.  
26 Each of the Parties hereto and their respective counsel have contributed to the preparation of this  
27 Settlement Agreement. Accordingly, no provision of this Settlement Agreement shall be  
28 construed against any Party because that Party or its counsel drafted the provision.

1 I. NO WAIVER

2 It is understood and agreed that no failure or delay by any Party hereto in exercising any  
3 right, power or privilege hereunder shall operate as a waiver thereof, nor shall any single or  
4 partial exercise thereof preclude any other or future exercise thereof or the exercise of any other  
5 right, power or privilege.

6  
7 J. AMENDMENT/SEVERABILITY

8 This Settlement Agreement sets forth the entire understanding and agreement between  
9 the parties with reference to the subject matter hereof, and this Settlement Agreement may not  
10 be modified or terminated except by an instrument in writing signed by all Parties hereto. This  
11 Settlement Agreement supersedes all prior agreements, negotiations, and understandings among  
12 the Parties, both oral and written related to this matter.

13  
14 K. COUNTERPARTS

15 This Settlement Agreement may be executed in counterparts, each of which shall be  
16 deemed an original, but all of which together shall constitute one and the same instrument.

17  
18 L. APPENDICES


19 Appendix A to this Settlement Agreement as listed below is part of the agreement of the  
20 Parties and is incorporated into this Settlement Agreement by reference.

21 Appendix A Joint Comparison Exhibit  
22  
23  
24  
25  
26  
27  
28

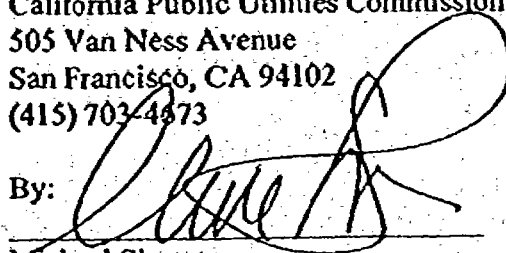
1 M. EXECUTION

2 In witness whereof, intending to be legally bound, the Parties hereto have duly executed  
3 this Settlement Agreement on behalf of the Parties they represent.

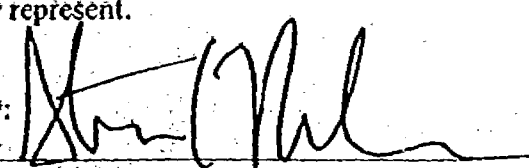
4  
5 By:

6   
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22 By:

23   
24 Steven Nelson  
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# APPENDIX A

## Appendix A

### Joint Comparison Exhibit

#### Table

A-1	1999 Sales Estimate
A-2	Gas Supply Expenses
A-3	Gas Storage Expenses
A-4	Gas Transmission Expenses
A-5	Gas Distribution Expenses
A-6	Electric Distribution Expenses
A-7	Combined Dept. - CAC Expenses
A-8	Combined Dept. - CSI Expenses
A-9	Combined Dept. - A&G Expenses
A-10	Dept. & Amortization Expense - Electric
A-11	Dept. & Amortization Expense - Gas
A-12	Taxes Other Than on Income - Electric
A-13	Taxes Other Than on Income - Gas
A-14	Weighted Avg. Depr. Rate Base - Electric
A-15	Weighted Avg. Depr. Rate Base - Gas
A-16	Summary of Earnings - Electric
A-17	Summary of Earnings - Gas
A-18	Summary of Earnings - Combined Departments

Table A-1

**San Diego Gas & Electric Company - A.98-01-014  
Test Year 1999**

**1999 Sales Estimate**

**Electric Sales (GWh)**

<u>Customer Class</u>	<u>UCAN</u>	<u>ORA</u>	<u>SDG&amp;E</u>	<u>Settlement</u>
Residential	6,321	6,271	6,271	6,312
Commercial	7,226	6,997	6,997	7,043
Industrial	3,762	3,794	3,794	3,819
Other	96	96	96	96
<b>TOTAL Electric</b>	<b>17,405</b>	<b>17,158</b>	<b>17,158</b>	<b>17,270</b>

**Gas Sales (MMth)**

<u>Customer Class</u>	<u>UCAN</u>	<u>ORA</u>	<u>SDG&amp;E</u>	<u>Settlement</u>
Residential	318	318	318	318
Commercial	130	126	126	130
Industrial	81	81	81	81
Cogeneration	167	167	167	167
Subtotal	696	692	692	696
<b>UEG</b>	<b>421</b>	<b>421</b>	<b>421</b>	<b>421</b>
<b>TOTAL Gas</b>	<b>1,117</b>	<b>1,113</b>	<b>1,113</b>	<b>1,117</b>

Table A-2

San Diego Gas & Electric Company - A.98-01-014  
Test Year 1999Gas Supply Expenses  
(Thousands of 1996 Dollars)

<u>Account No.</u>	<u>Description</u>	<u>UCAN</u>	<u>ORA</u>	<u>SDG&amp;E</u>	<u>Settlement</u>
807.0	Purchased Gas Expenses	2,221	2,601	2,601	2,221
810.0	Compressor Sta. Fuel-Credit	(486)	(486)	(486)	(486)
812.0	Gas for Other Oper.-Credit	(53)	(53)	(53)	(53)
	<b>TOTAL</b>	<b>\$ 1,683</b>	<b>\$ 2,062</b>	<b>\$ 2,062</b>	<b>\$ 1,683</b>

Table A-3

**San Diego Gas & Electric Company - A.98-01-014**  
**Test Year 1999**

**Gas Storage Expenses**  
(Thousands of 1996 Dollars)

<u>Account No.</u>	<u>Description</u>	<u>UCAN</u>	<u>ORA</u>	<u>SDG&amp;E</u>	<u>Settlement</u>
	<u>Operation</u>				
840.0	Oper. Suprv. & Engr.	0.5	0.5	0.5	0.5
841.0	Oper. Labor & Expenses	29.9	29.9	29.9	29.9
	Total Operation	\$ 30.4	\$ 30.4	\$ 30.4	\$ 30.4
	<u>Maintenance</u>				
843.0	Maintenance	12.7	12.7	12.7	12.7
	<b>TOTAL</b>	<b>\$ 43.1</b>	<b>\$ 43.1</b>	<b>\$ 43.1</b>	<b>\$ 43.1</b>

Table A-4

**San Diego Gas & Electric Company - A.98-01-014**  
**Test Year 1999**

**Gas Transmission Expenses**

(Thousands of 1996 Dollars)

Account No.	Description	UCAN	ORA	SDG&E	Settlement
<b>Operation</b>					
850.0	Oper. Supervision & Engineering	880	856	899	856
851.0	System Control & Load Dispatch	345	345	345	345
853.0	Comp. Sta. Labor & Expense	903	901	903	901
854.0	Gas for Comp. Sta. Fuel	486	486	486	486
855.0	Other Fuel & Pow-Comp. Sta.	120	120	120	120
856.0	Mains Expenses	589	704	704	704
857.0	Meas. & Reg. Sta. Expenses	145	145	145	145
859.0	Other Expenses	346	346	346	346
860.0	Rents	17	17	17	17
	<b>Total Operation</b>	<b>\$ 3,829</b>	<b>\$ 3,919</b>	<b>\$ 3,964</b>	<b>\$ 3,919</b>
<b>Maintenance</b>					
861.0	Maint. Supervision & Engineering	222	216	222	216
862.0	Maint. of Struct. & Improv.	8	8	8	8
863.0	Maint. of Mains	30	30	30	30
864.0	Maint. of Comp. Sta. Equipment	639	603	644	603
865.0	Mnt.-Meas. & Reg. Sta. Equip.	45	45	45	45
867.0	Maint. of Other Equipment	0	0	0	0
	<b>Total Maintenance</b>	<b>\$ 944</b>	<b>\$ 902</b>	<b>\$ 950</b>	<b>\$ 902</b>
	<b>TOTAL</b>	<b>\$ 4,773</b>	<b>\$ 4,820</b>	<b>\$ 4,913</b>	<b>\$ 4,820</b>

Table A-5

**San Diego Gas & Electric Company - A.98-01-014**  
**Test Year 1999**

**Gas Distribution Expenses**  
(Thousands of 1996 Dollars)

<u>Account No.</u>	<u>Description</u>	<u>UCAN</u>	<u>ORA</u>	<u>SDG&amp;E</u>	<u>Settlement</u>
<b>Operation</b>					
870.0	Op. Supervision & Engineer	3,110	3,085	3,175	3,085
871.0	Load Dispatching	284	284	284	284
874.0	Mains & Services Expenses	2,793	2,612	2,628	2,793
875.0	Meas. & Reg. Sta. Exp. Gen.	322	322	322	322
878.0	Meter & House Reg. Exp.	2,854	2,930	2,930	2,854
879.0	Customer Installation Exp.	7,087	7,087	7,346	7,087
880.0	Other Expenses	1,634	1,633	1,640	1,633
881.0	Rents	121	121	121	121
	<b>Total Operation</b>	<b>\$ 18,204</b>	<b>\$ 18,074</b>	<b>\$ 18,446</b>	<b>\$ 18,179</b>
<b>Maintenance</b>					
885.0	Maint. Supervision & Engineering	143	136	147	136
886.0	Maint. of Struct. & Improv.	2	2	2	2
887.0	Maintenance of Mains	2,125	1,870	2,125	2,125
889.0	Mnt. Meas. & Reg. Sta. Exp.	51	51	51	51
892.0	Maintenance of Services	746	560	746	746
893.0	Mnt. Meters & House Reg.	457	505	505	457
894.0	Maint. of Other Equipment	172	8	172	8
	<b>Total Maintenance</b>	<b>\$ 3,695</b>	<b>\$ 3,132</b>	<b>\$ 3,747</b>	<b>\$ 3,625</b>
	<b>TOTAL</b>	<b>\$ 21,900</b>	<b>\$ 21,207</b>	<b>\$ 22,193</b>	<b>\$ 21,704</b>

Table A-6

**San Diego Gas & Electric Company - A.98-01-014**  
**Test Year 1999**

**Electric Distribution Expenses**  
(Thousands of 1996 Dollars)

<u>Account No.</u>	<u>Description</u>	<u>UCAN</u>	<u>ORA</u>	<u>SDG&amp;E</u>	<u>Settlement</u>
<b>Operation</b>					
580.0	Op. Supervision & Engineering	3,112	3,200	3,577	3,200
581.0	Load Dispatching	1,195	1,420	1,420	1,195
582.0	Station Expenses	2,715	2,986	2,986	2,715
583.0	Overhead Line Expenses	1,719	1,719	1,719	1,719
584.0	Underground Line Expenses	1,866	1,866	1,866	1,866
585.0	Street Light & Signal Expenses	397	397	397	397
586.0	Meter Expenses	3,712	3,856	4,616	3,712
587.0	Customer Installation Expenses	1,999	2,071	2,273	2,071
588.0	Misc. Distribution Expense	3,791	3,177	4,114	3,177
589.0	Rents	243	243	243	243
	<b>Total Operation</b>	<b>\$ 20,747</b>	<b>\$ 20,933</b>	<b>\$ 23,209</b>	<b>\$ 20,293</b>
<b>Maintenance</b>					
590.0	Maint. Supervision & Engineering	343	343	343	343
591.0	Maint. of Structures	71	71	71	71
592.0	Maint. of Station Equipment	2,304	1,975	2,335	1,975
593.0	Maint. of Overhead Lines	19,606	18,600	37,817	37,332
594.0	Maint. of Underground Lines	4,546	3,979	5,003	4,294
595.0	Maint. of Transformers	587	680	680	587
596.0	Maint. of St. Light & Signal	155	109	155	134
597.0	Maint. of Meters	402	402	402	402
598.0	Maint. of Misc. Dist. Plant	11	11	32	11
	<b>Total Maintenance</b>	<b>\$ 28,025</b>	<b>\$ 26,170</b>	<b>\$ 46,838</b>	<b>\$ 45,149</b>
	<b>TOTAL</b>	<b>\$ 48,772</b>	<b>\$ 47,103</b>	<b>\$ 70,047</b>	<b>\$ 65,442</b>



Table A-7

**San Diego Gas & Electric Company - A.98-01-014**  
**Test Year 1999**

**Combined Department - Customer Accounting & Collections Expenses**  
 (Thousands of 1996 Dollars)

Account No.	Description	UCAN	ORA	SDG&E	Settlement (1)
902.0	Meter Reading Expenses	8,630	9,720	9,720	8,948
	<b>Customer Records &amp; Collection</b>				
903.1	Customer Service	24,622	26,198	30,044	26,198
903.2	Credit Management	2,193	2,193	2,193	2,193
903.3	Collections	4,813	4,813	4,813	4,813
903.4	Customer Payments	3,641	3,641	3,641	3,641
903.5	Billing & Bookkeeping	3,396	4,239	4,239	3,396
903.6	Data Processing	6,591	7,299	11,177	6,850
903.7	Postage	3,736	3,855	3,855	3,736
903.8	Meter Revenue Protection	372	372	372	372
903.9	Cust. Serv. Conserv. Programs	162	162	162	162
	<b>Total Cust. Records &amp; Collec.</b>	<b>\$ 49,526</b>	<b>\$ 52,772</b>	<b>\$ 60,495</b>	<b>\$ 51,360</b>
	<b>TOTAL</b>	<b>\$ 58,155</b>	<b>\$ 62,492</b>	<b>\$ 70,215</b>	<b>\$ 60,308</b>

(1) Combined settlement estimates will be split 64.868% (electric distribution) and 35.132 (gas).

Table A-8

San Diego Gas & Electric Company - A.98-01-014  
Test Year 1999

Combined Department - Customer Service & Information Expenses  
(Thousands of 1996 Dollars)

Account No.	Description	UC&H	ORA	SDG&E	Settlement
907.0	Customer Service	295	295	295	295
908.0	Credit Management	10,544	10,544	10,544	10,544
909.0	Collections	128	88	169	88
910.0	Customer Payments	3,207	5,152	5,996	3,520
		\$ 14,173	\$ 16,078	\$ 17,023	\$ 14,446

(1) Combined estimates will be split 64.868% (electric distribution) and 35.132 (gas) for common expenses.

Table A-9

**San Diego Gas & Electric Company • A.98-01-014**  
**Test Year 1999**

**Combined Department • Administrative & General Expenses**  
 (Thousands of 1996 Dollars)

Account No.	Description	UCAN	ORA	SDG&E	Settlement (1)
920.0	Administrative & General Salaries	20,834	22,086	23,154	20,364
921.0	Office Supplies & Expenses	13,869	14,562	14,562	14,213
922.0	Admin. Expense Transferred	(13,024)	(15,079)	(15,079)	(14,079)
923.0	Outside Services Employed	3,891	3,391	3,891	3,745
924.0	Property Insurance	1,320	1,320	1,320	1,320
925.0	Injuries and Damages	9,380	9,729	10,087	9,729
926.0 (2)	Employee Pensions & Benefits	24,982	20,686	32,137	21,625
928.0	Regulatory Commission Expenses	6,844	7,487	7,487	7,487
929.0	Duplicate Charges	(928)	(928)	(928)	(928)
930.0	Misc. General Expenses	6,500	7,219	7,219	7,043
931.0	Rents	3,332	3,332	3,332	3,332
935.0	Maint. of General Plant	2,981	2,981	2,981	2,981
	Total	\$ 79,981	\$ 76,786	\$ 90,163	\$ 76,832
	Fixed A&G	-	(905)	-	-
	Fixed A&G	-	(1,134)	-	-
		\$ 79,981	\$ 74,747	\$ 90,163	\$ 76,832

(1) Settlement estimates will be split 73% (electric distribution) and 27% (gas) for all accounts except for 926.

(2) Settlement estimate will be split 66.9% (electric distribution) and 33.1% (gas) for account 926.

Table A-10

San Diego Gas & Electric Company - A.98-01-014  
 Test Year 1999  
 Electric Department

Depreciation & Amortization Expense  
 (Thousands of 1999 Dollars)

Description	UCAN	ORA	SDG&E	Settlement
<b>Depreciation Expense</b>				
Distribution Plant			110,744	104,270
General Plant relating to Electric Distribution			1,917	1,902
Total Depreciation Expense (1)			112,661	106,172
Depreciation of Common Plant related to Distribution			11,033	10,812
TOTAL Depreciation Expense			\$ 123,694	\$ 116,984
<b>Amortization Expense</b>				
Limited Term Investments				
Land Rights			1,209	1,211
Software			8,376	6,466
TOTAL Amortization Expense			\$ 9,585	\$ 7,677
TOTAL Depreciation & Amortization Expense	\$ 129,642	\$ 117,176	\$ 133,279	\$ 124,661

(1) Based on depreciation of unbundled electric distribution plant in service.

Table A-11

**San Diego Gas & Electric Company - A.98-01-014**  
**Test Year 1999**  
**Gas Department**

**Depreciation & Amortization Expense**  
(Thousands of 1999 Dollars)

Description	UCAN	ORA	SDG&E	Settlement
<b>Depreciation Expense</b>				
Storage Plant			70	70
Transmission Plant			6,375	6,196
Distribution & General Plant			27,463	27,242
Total Depreciation Expense (1)			33,908	33,508
Depreciation of Common Plant related to Gas			4,112	4,146
TOTAL Depreciation Expense			\$ 38,020	\$ 37,654
<b>Amortization Expense</b>				
Limited Term Investments				
Land Rights			287	284
Software			2,918	2,325
TOTAL Amortization Expense			\$ 3,205	\$ 2,609
<b>TOTAL Depreciation &amp; Amortization Expense</b>	<b>\$ 38,923</b>	<b>\$ 40,014</b>	<b>\$ 41,225</b>	<b>\$ 40,263</b>

(1) Based on depreciable gas plant.

Table A-12

## San Diego Gas &amp; Electric Company - A.98-01-014

Test Year 1999

Electric Department

## Taxes Other Than on Income

(Thousands of 1999 Dollars)

<u>Description</u>	<u>UCAN</u>	<u>ORA</u>	<u>SDG&amp;E</u>	<u>Settlement</u>
<u>Ad Valorem Taxes</u>				
California	\$ 15,797	15,765	16,549	15,965
<u>Payroll &amp; Miscellaneous Taxes</u>				
Total Payroll & Misc. Taxes	\$ 4,288	\$ 3,541	\$ 4,911	\$ 3,911
<b>TOTAL Taxes OTOI</b>	<u>\$ 20,085</u>	<u>\$ 19,306</u>	<u>\$ 21,460</u>	<u>\$ 19,876</u>

Table A-13

San Diego Gas & Electric Company - A.98-01-014  
Test Year 1999  
Gas Department

Taxes Other Than on Income  
(Thousands of 1999 Dollars)

<u>Description</u>	<u>UCAN</u>	<u>ORA</u>	<u>SDG&amp;E</u>	<u>Settlement</u>
<u>Ad Valorem Taxes</u>				
California	\$ 5,413	\$ 5,413	\$ 5,533	\$ 5,468
<u>Payroll &amp; Miscellaneous Taxes</u>				
Total Payroll & Misc. Taxes	\$ 1,863	\$ 1,863	\$ 2,113	\$ 1,963
<b>TOTAL Taxes OTOI</b>	<u>\$ 7,276</u>	<u>\$ 7,276</u>	<u>\$ 7,646</u>	<u>\$ 7,431</u>

Table A-14

## San Diego Gas &amp; Electric Company - A.98-01-014

Test Year 1999

Electric Department

## Weighted Average Depreciated Rate Base

(Thousands of 1999 Dollars)

Description	UCAN	ORA	SDG&E	Settlement
<b>Beginning Bal. - Fixed Capital</b>				
Plant in Service			2,544,934	2,496,941
Plant Held for Future Use				
Total Beginning Balances			2,544,934	2,496,941
<b>Weighted Plant Additions</b>			59,519	64,026
Total Fixed Capital			2,604,453	2,550,967
Customer Advances for Constr.			(16,242)	(16,242)
<b>Working Capital</b>				
Fuel in Storage				
Materials & Supplies			12,153	12,163
Working Cash			25,617	7,916
Total Working Capital			37,770	20,069
<b>TOTAL Before Reserves</b>			2,625,981	2,554,794
<b>Weighted Reserves</b>				
Deferred Income Taxes			(101,444)	(100,008)
Depreciation			(1,033,643)	(1,028,279)
Amortization & Other			(42,674)	(40,785)
Total Reserves			(1,177,761)	(1,169,072)
<b>Weighted Avg. Depr. Rate Base</b>	1,372,220	1,369,443	1,448,220	1,385,722



Table A-15

## San Diego Gas &amp; Electric Company - A.98-01-014

Test Year 1999

Gas Department

## Weighted Average Depreciated Rate Base

(Thousands of 1999 Dollars)

Description	UCAN	ORA	SDG&E	Settlement
<b>Beginning Bal. - Fixed Capital</b>				
Plant in Service			969,864	955,119
Plant Held for Future Use				
Total Beginning Balances			969,864	955,119
Weighted Plant Additions			16,100	13,331
Total Fixed Capital			985,964	968,450
Customer Advances for Constr.			(7,215)	(7,215)
<b>Working Capital</b>				
Fuel in Storage			189	189
Materials & Supplies			1,421	1,421
Working Cash			11,955	3,365
Total Working Capital			13,376	4,975
<b>TOTAL Before Reserves</b>			992,125	966,210
<b>Weighted Reserves</b>				
Deferred Income Taxes			(42,795)	(42,481)
Depreciation			(463,096)	(458,529)
Amortization & Other			(13,637)	(12,337)
Total Reserves			(519,528)	(513,347)
<b>Weighted Avg. Depr. Rate Base</b>	437,697	453,712	472,697	452,863

Table A-16

San Diego Gas & Electric Company - A.98-01-014  
Test Year 1999

## SUMMARY OF EARNINGS COMPARISON

Electric Department

(Thousands of Dollars)

	<u>UCAN</u>	<u>ORA</u>	<u>SDG&amp;E</u>	<u>Settlement</u>
<b><u>OPERATING REVENUE</u></b>				
1 Sales to Customers	523,435	496,018	596,242	544,015
2 Miscellaneous Revenues	16,112	16,456	16,456	15,985
3 TOTAL OPERATING REVENUE	539,547	512,474	612,698	560,000
<b><u>OPERATING EXPENSES</u></b>				
4 Distribution	48,772	47,103	70,047	65,442
5 CAC	37,724	41,824	46,834	39,121
6 Uncollectibles	3,095	3,095	3,095	3,095
7 CSI	3,116	4,913	5,805	3,293
8 A & G	54,405	44,924	63,954	54,779
9 Franchise Fees	18,269	18,269	28,497	28,497
10 Other Adjustments	-	(4,163)	-	(4,163)
11 Total O & M (\$96)	165,381	155,965	218,232	190,064
12 Labor Escalation	7,202	6,740	9,347	6,940
13 Non-Labor Escalation	6,434	6,024	8,354	6,185
14 Total O & M (\$1999)	179,017	168,729	235,933	203,189
15 Depreciation	129,542	117,175	133,279	124,661
16 Property Tax	15,797	15,765	16,549	15,965
17 Payroll/Misc. Taxes	4,288	3,541	4,911	3,911
18 State Taxes	15,397	14,724	16,138	15,715
19 Federal Taxes	67,547	64,497	70,479	66,994
20 Total Taxes	103,029	98,527	108,077	102,585
21 TOTAL OPERATING EXPENSES	411,588	384,431	477,289	430,435
22 NET OPERATING INCOME	128,303	128,043	135,409	129,565
23 RATE BASE	1,372,220	1,369,443	1,448,220	1,385,722
24 RATE OF RETURN	9.35%	9.35%	9.35%	9.35%
25 DSM REWARD	19,393	19,393	19,393	19,393

Table A-17

San Diego Gas & Electric Company - A.98-01-014  
Test Year 1999

## SUMMARY OF EARNINGS COMPARISON

Gas Department  
(Thousands of Dollars)

	<u>UCAN</u>	<u>ORA</u>	<u>SDG&amp;E</u>	<u>Settlement</u>
<b>OPERATING REVENUE</b>				
1 Sales to Customers	187,673	188,624	206,152	188,486
2 Interdepartmental Revenues	11,389	11,389	11,389	11,389
3 Miscellaneous Revenues	5,065	2,991	2,991	4,906
4 TOTAL OPERATING REVENUE	204,127	203,004	220,532	204,781
<b>OPERATING EXPENSES</b>				
5 Supply	1,683	2,062	2,062	1,683
6 Storage	43	43	43	43
7 Transmission	4,773	4,820	4,913	4,820
8 Distribution	21,900	21,207	22,193	21,704
9 CAC	20,431	20,667	23,360	21,187
10 Uncollectibles	538	548	564	548
11 CSI	11,057	11,165	11,218	11,153
12 A & G	22,578	21,259	26,209	22,053
13 Franchise Fees	4,019	4,091	4,438	4,094
14 Other Adjustments		(2,437)		(2,437)
15 Total O & M (\$96)	87,022	83,424	95,060	84,849
16 Labor Escalation	5,135	4,921	5,581	4,684
17 Non-Labor Escalation	3,230	3,108	3,525	2,958
18 Total O & M (\$1999)	95,387	91,453	104,156	92,490
19 Depreciation	38,923	40,014	41,225	40,263
20 Property Tax	5,413	5,413	5,533	5,468
21 Payrol/Misc. Taxes	1,863	1,863	2,113	1,963
22 State Taxes	3,966	4,025	4,307	4,006
23 Federal Taxes	17,660	17,814	19,010	18,248
24 Total Taxes	28,902	29,115	30,963	29,685
25 TOTAL OPERATING EXPENSES	163,212	160,582	176,344	162,438
26 NET OPERATING INCOME	40,915	42,422	44,188	42,343
27 RATE BASE	437,597	453,712	472,597	452,863
28 RATE OF RETURN	9.35%	9.35%	9.35%	9.35%
29 DSM REWARD	1,604	1,604	1,604	1,604

Table A-18

San Diego Gas & Electric Company - A.98-01-014  
Test Year 1999

## SUMMARY OF EARNINGS COMPARISON

Combined Departments

(Thousands of Dollars)

	<u>UCAN</u>	<u>ORA</u>	<u>SDG&amp;E</u>	<u>Settlement</u>
<b><u>OPERATING REVENUE</u></b>				
1 Sales to Customers	711,108	684,642	802,393	732,501
2 Interdepartmental Revenues	11,389	11,389	11,389	11,389
3 Miscellaneous Revenues	21,177	19,447	19,447	20,891
4 TOTAL OPERATING REVENUE	743,674	715,478	833,229	764,781
<b><u>OPERATING EXPENSES</u></b>				
5 Supply	1,683	2,062	2,062	1,683
6 Storage	43	43	43	43
7 Transmission	4,773	4,820	4,913	4,820
8 Distribution	70,672	68,310	92,240	87,146
9 CAC	58,155	62,491	70,214	60,308
10 Uncollectibles	3,633	3,643	3,689	3,643
11 CSI	14,173	16,078	17,023	14,446
12 A & G	76,983	66,182	90,163	76,832
13 Franchise Fees	22,288	22,360	32,935	32,591
14 Other Adjustments	-	(6,600)	-	(6,600)
15 Total O & M (\$96)	252,403	239,389	313,282	274,912
16 Labor Escalation	12,337	11,661	14,928	11,624
17 Non-Labor Escalation	9,664	9,132	11,879	9,143
18 Total O & M (\$1999)	274,404	260,182	340,089	295,679
19 Depreciation	168,465	157,189	174,504	164,924
20 Property Tax	21,210	21,178	22,082	21,433
21 Payroll/Misc. Taxes	6,151	5,404	7,024	5,874
22 State Taxes	19,363	18,749	20,445	19,721
23 Federal Taxes	85,207	82,311	89,489	85,242
24 Total Taxes	131,931	127,642	139,040	132,270
25 TOTAL OPERATING EXPENSES	674,800	545,013	653,633	592,873
26 NET OPERATING INCOME	169,218	170,465	179,596	171,908
27 RATE BASE	1,809,817	1,823,155	1,920,817	1,838,585
28 RATE OF RETURN	9.35%	9.35%	9.35%	9.35%
29 DSM REWARD	20,997	20,997	20,997	20,997

(END OF ATTACHMENT 1)

**SDG&E 1999 COST OF SERVICE  
SETTLEMENT**  
(\$000)

<u>GAS</u>	<u>SDG&amp;E's Errata Filing (6/4/98)</u>	<u>Settlement</u>
Sales to Customers	205,481	188,486
Interdepartmental	11,389	11,389
DSM Reward	<u>1,604</u>	<u>1,604</u>
Total	218,474	201,479
Revenues at Present Rates	189,586	197,585
Requested Change	28,888 Increase	3,894 Increase
Percentage Change	15.24% Increase	1.97% Increase
 <u>ELECTRIC DISTRIBUTION</u>		
Sales to Customers	596,242	544,015
DSM Reward	<u>19,393</u>	<u>19,393</u>
Total	615,635	563,408
Revenues at Present Rates	569,791	577,618
Requested Change	45,844 Increase	(14,210) Decrease
Percentage Change	8.05% Increase	-2.46% Decrease
 <u>Combined Departments</u>		
Requested Change	74,732 Increase	(10,316) Decrease
Percentage Change	9.84% Increase	-1.33% Decrease

SDG&E 1999 COST OF SERVICE ERRATA FILING  
ELECTRIC DISTRIBUTION CHANGES

Rate Class	Revenue at Present Rates (thousands \$)	Revenue at Proposed Rates (thousands \$)	Revenue Change (thousands \$)	Percentage Change (%)
Residential	\$279,054	\$306,635	\$27,581	9.88%
Schedule A	\$92,723	\$97,602	\$4,879	5.26%
Schedule AD	\$0	\$0	\$0	0.00%
Schedule AL-TOU	\$183,026	\$195,799	\$12,774	6.98%
Schedule A6-TOU	\$3,307	\$3,412	\$105	3.18%
Subtotal	\$279,056	\$296,813	\$17,757	6.36%
Agriculture	\$6,464	\$6,657	\$93	1.45%
Lighting	\$5,217	\$5,629	\$412	7.90%
Total System	\$569,791	\$615,635	\$45,844	8.05%

SDG&E 1999 COST OF SERVICE SETTLEMENT  
ELECTRIC DISTRIBUTION CHANGES

Rate Class	Revenue at Present Rates (thousands \$)	Revenue at Proposed Rates (thousands \$)	Revenue Change (thousands \$)	Percentage Change (%)
Residential	\$281,462	\$279,232	(\$2,230)	-0.79%
Schedule A	\$94,503	\$89,092	(\$5,411)	-5.73%
Schedule AD	\$0	\$0	\$0	0.00%
Schedule AL-TOU	\$186,541	\$180,570	(\$5,971)	-3.20%
Schedule A6-TOU	\$3,307	\$3,132	(\$175)	-5.30%
Subtotal	\$284,351	\$272,794	(\$11,557)	-4.06%
Agriculture	\$6,588	\$5,967	(\$621)	-9.43%
Lighting	\$5,217	\$5,415	\$198	3.80%
Total System	\$577,618	\$563,408	(\$14,210)	-2.46%

SDG&E 1999 COST OF SERVICE ERRATA FILING  
GAS MARGIN CHANGES

Rate Class	Margin at Present Rates (thousands \$)	Margin at Proposed Rates (thousands \$)	Margin Change (thousands \$)	Percentage Change (%)
Residential	\$126,698	\$147,451	\$20,753	16.38%
Small Commercial	\$41,942	\$48,129	\$6,187	14.75%
Large Commercial	\$880	\$1,107	\$228	25.88%
Subtotal Core	\$169,385	\$196,687	\$27,302	16.12%
Commercial/Industrial	\$4,032	\$4,508	\$476	11.81%
Cogeneration	\$5,509	\$5,744	\$235	4.27%
UEG	\$10,661	\$11,535	\$874	8.20%
Subtotal NonCore	\$20,201	\$21,787	\$1,586	7.85%
Total System	\$189,586	\$218,474	\$28,888	15.24%

Note - Corrected ERRATA filing (ORA corrections)



**CORRECTION !!**

*THE PREVIOUS DOCUMENT(S) MAY HAVE  
BEEN FILMED INCORRECTLY .....*

**RESHOOT FOLLOWS**

SDG&E 1999 COST OF SERVICE ERRATA FILING  
GAS MARGIN CHANGES

Rate Class	Margin at Present Rates (thousands \$)	Margin at Proposed Rates (thousands \$)	Margin Change (thousands \$)	Percentage Change (%)
Residential	\$126,698	\$147,451	\$20,753	16.38%
Small Commercial	\$41,942	\$48,129	\$6,187	14.75%
Large Commercial	\$880	\$1,107	\$228	25.88%
Subtotal Core	\$169,385	\$196,687	\$27,302	16.12%
Commercial/Industrial	\$4,032	\$4,508	\$476	11.81%
Cogeneration	\$5,509	\$5,744	\$235	4.27%
UEG	\$10,661	\$11,535	\$874	8.20%
Subtotal NonCore	\$20,201	\$21,787	\$1,586	7.85%
Total System	\$189,586	\$218,474	\$28,888	15.24%

Note - Corrected ERRATA filing (ORA corrections)

SDG&E 1999 COST OF SERVICE SETTLEMENT  
ELECTRIC DISTRIBUTION CHANGES

Rate Class	Revenue at Present Rates (thousands \$)	Revenue at Proposed Rates (thousands \$)	Revenue Change (thousands \$)	Percentage Change (%)
Residential	\$281,462	\$279,232	(\$2,230)	-0.79%
Schedule A	\$94,503	\$89,092	(\$5,411)	-5.73%
Schedule AD	\$0	\$0	\$0	0.00%
Schedule AL-TOU	\$186,541	\$180,570	(\$5,971)	-3.20%
Schedule A6-TOU	\$3,307	\$3,132	(\$175)	-5.30%
Subtotal	\$284,351	\$272,794	(\$11,557)	-4.06%
Agriculture	\$6,588	\$5,967	(\$621)	-9.43%
Lighting	\$5,217	\$5,415	\$198	3.80%
Total System	\$577,618	\$563,408	(\$14,210)	-2.46%

SDG&E 1999 COST OF SERVICE SETTLEMENT  
GAS MARGIN CHANGES

Rate Class	Margin at Present Rates (thousands \$)	Margin at Proposed Rates (thousands \$)	Margin Change (thousands \$)	Percentage Change (%)
Residential	\$131,748	\$135,614	\$3,766	2.86%
Small Commercial	\$44,149	\$44,868	\$719	1.63%
Large Commercial	\$950	\$1,010	\$60	6.29%
Subtotal Core	\$176,713	\$181,392	\$4,679	2.65%
Commercial/Industrial	\$4,155	\$4,255	\$99	2.39%
Cogeneration	\$5,750	\$5,424	(\$326)	-5.68%
UEG	\$10,967	\$10,408	(\$558)	-5.09%
Subtotal NonCore	\$20,872	\$20,087	(\$785)	-3.76%
Total System	\$197,585	\$201,479	\$3,894	1.97%

Note - Based on corrected ERRATA with updated BCAP margin

(END OF ATTACHMENT 2)

**1999 Cost of Service  
Updated Escalation**

**Electric Distribution**

<u>Account Group</u>	<u>Labor</u>	<u>Non-Labor</u>	<u>Other</u>	<u>Total</u>
Distribution	\$ 25,666,352	\$ 39,775,648	\$ -	\$ 65,442,000
CAC (1)	\$ 20,691,097	\$ 18,429,903	\$ 3,095,000	\$ 42,216,000
CSI	\$ 667,820	\$ 2,625,180	\$ -	\$ 3,293,000
A & G (2)	\$ 14,406,877	\$ 40,372,123	\$ 28,497,000	\$ 83,276,000
Adjustment	\$ (4,163,000)	\$ -	\$ -	\$ (4,163,000)
<b>TOTAL O&amp;M</b>	<b>\$ 57,269,146</b>	<b>\$ 101,202,854</b>	<b>\$ 31,592,000</b>	<b>\$ 190,064,000</b>
Escalation	<u>13.756%</u>	<u>5.846%</u>		
	\$ 7,877,657	\$ 5,916,218		

(1) Includes Uncollectibles in "Other" column

(2) Includes Franchise Fees in "Other" column

**Gas O & M**

<u>Account Group</u>	<u>Labor</u>	<u>Non-Labor</u>	<u>Other</u>	<u>Total</u>
Storage	\$ 1,485,584	\$ 197,416	\$ -	\$ 1,683,000
Supply	\$ 30,616	\$ 12,384	\$ -	\$ 43,000
Transmission	\$ 3,014,428	\$ 1,805,572	\$ -	\$ 4,820,000
Distribution	\$ 16,768,510	\$ 4,935,490	\$ -	\$ 21,704,000
CAC (1)	\$ 11,188,855	\$ 9,998,145	\$ 548,000	\$ 21,735,000
CSI	\$ 1,369,588	\$ 9,783,412	\$ -	\$ 11,153,000
A & G (2)	\$ 5,777,866	\$ 16,275,114	\$ 4,094,000	\$ 26,147,000
Adjustment	\$ (2,437,000)	\$ -	\$ -	\$ (2,437,000)
<b>TOTAL O&amp;M</b>	<b>\$ 37,198,467</b>	<b>\$ 43,007,533</b>	<b>\$ 4,642,000</b>	<b>\$ 84,848,000</b>
Escalation	<u>13.756%</u>	<u>6.640%</u>		
	\$ 5,116,835	\$ 2,855,829		

(1) Includes Uncollectibles in "Other" column

(2) Includes Franchise Fees in "Other" column

<b>Labor and Non-Labor Percentage Splits For Each Major Account Category</b>		
<b>Electric Department</b>	<b>Labor</b>	<b>Non-Labor</b>
Distribution	39.22%	60.78%
Customer Accounting and Collections(CAC)	52.89%	47.11%
Customer Service and Information(CSI)	20.28%	79.72%
Administrative and General(A&G)	26.30%	73.70%
Adjustment	100.00%	
<b>GAS Department</b>	<b>Labor</b>	<b>Non-Labor</b>
Supply	88.27%	11.73%
Storage	71.20%	28.80%
Transmission	62.54%	37.46%
Distribution	77.26%	22.74%
Customer Accounting and Collections(CAC)	52.81%	47.19%
Customer Service and Information(CSI)	12.28%	87.72%
Administrative and General(A&G)	26.20%	73.80%
Adjustment	100.00%	
* The percentages reflected above are consistent with the percentages contained within SDG&E's Application		
* CAC and A&G percentages reflect Uncollectibles and Franchise Fees removed		

(END OF ATTACHMENT 3)