

PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

COMMISSION ADVISORY AND  
COMPLIANCE DIVISION  
Energy Branch

RESOLUTION E-3464  
Date: September 4, 1996

R E S O L U T I O N

RESOLUTION E-3464. SAN DIEGO GAS & ELECTRIC COMPANY, REQUESTS APPROVAL OF ITS PERFORMANCE BASED RATEMAKING BASE RATE MECHANISM FINAL REPORT FOR 1995, WHICH DETAILS REVENUE SHARING CALCULATIONS AND PERFORMANCE REWARDS FOR THE SUBJECT YEAR APPROVED.

BY ADVICE LETTER 986-E/1012-G, FILED ON May 15, 1996.

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SUMMARY

1. This Resolution accepts San Diego Gas & Electric Company's (SDG&E) Advice Letter (AL) 986-E/1012-G, which transmits SDG&E's Performance Based Ratemaking (PBR) Base Rate Mechanism Final Report for 1995 (Base Rate Report) in compliance with Decision (D.) 94-08-023. The Base Rate Report constitutes SDG&E's summary of 1995 results of operations under PBR. In the report, SDG&E presents its revenue sharing calculations and performance rewards for the year.
2. SDG&E's 1995 rate of return subject to sharing was 10.68%. It is 92 basis points above authorized, which falls within the first band of the revenue sharing mechanism. As a result, 100% of SDG&E's 1995 net operating income is allocated to shareholders and zero is allocated to ratepayers.
3. SDG&E is authorized to recover \$4,700,000 in reward for 1995 Electric Department performance and \$800,000 in reward for 1995 Gas Department performance.
4. For this performance period, SDG&E exceeded its three quality of service benchmarks (customer satisfaction, safety and electric system reliability) and met its price performance benchmark (national electric rate comparison).
5. This Resolution also adopts SDG&E's report that under the Base Rates PBR methodology its authorized 1995 Research, Development and Demonstration (RD&D) funding increased \$77,000 from the 1994 allocation.
6. There were no protests to this Advice Letter.

BACKGROUND

1. SDG&E's PBR Base Rate Mechanism establishes the method by which its nonfuel revenue requirements, i.e., those costs related to operation and maintenance expenses, general and administrative expenses, capital-related costs (e.g., net investment, depreciation and taxes) and other nonfuel costs, are calculated. It also sets forth performance standards related to the quality of service provided, with associated financial rewards and penalties in the event those standards are exceeded or failed.
2. The Base Rate Mechanism became effective on September 1, 1994 and will remain in effect through 1999, or until superseded by SDG&E's next General Rate Case (subject to suspension provisions) or other specific Commission action.
3. AL 987-E/1012-G transmits SDG&E's Final Performance Report for 1995 to detail performance indicators and revenue sharing resulting from the PBR Base Rate Mechanism in compliance with D.94-08-023.
4. Item 4 on page 11 of D.95-04-069 states that the Commission requirement, adopted in D.91-10-046, that each utility file an annual RD&D status report was not changed by D.94-08-023. Consequently, SDG&E also reports in this advice letter, the change in available RD&D funding resulting from application of the PBR index.

NOTICE

1. Public notice of this advice letter was made by publication in the Commission calendar and by SDG&E mailing copies of the filing to interested parties, including other utilities, governmental agencies and the service list to Application 92-10-017.

PROTESTS

1. No protests were received on this Advice Letter.

DISCUSSION

Revenue Sharing

1. The Base Rate PBR Mechanism includes a revenue sharing calculation that allocates SDG&E's recorded net operating income (NOI) between the utility's shareholders and ratepayers. Reported combined gas and electric rate of returns (ROR) occurring up to and including 100 basis points above authorized are allocated 100% shareholders/0% ratepayers; ROR greater than 100 but no greater than 150 basis points above authorized are allocated 75% shareholders/25% ratepayers and ROR greater than

150 basis points above authorized are allocated 50% shareholders/50% ratepayers.

2. For 1995, SDG&E achieved a 10.68% combined ROR adjusted to base rates, which is 92 basis points above its authorized ROR of 9.76%. SDG&E's 1995 earned ROR falls into the first revenue sharing deadband (0-100 basis points above authorized). As a result, SDG&E's 1995 NOI is allocated 100% to shareholders.

3. In 1994, SDG&E reported a 10.17% combined ROR adjusted to base rates, which at 114 basis points above authorized fell into the second revenue sharing deadband (100-150 basis points above authorized). SDG&E's 1994 NOI was shared 75% shareholders and 25% ratepayers.

4. The Commission Advisory and Compliance Division (CACD) has reviewed SDG&E's revenue sharing calculations and concur that they are reasonable.

#### Employee Safety

5. The non-price performance indicator for employee safety is based on the utility's performance in the frequency of lost-time accidents (LTA) reported to the Federal Occupational Safety and Health Administration (OSHA). Rewards or penalties received for employee safety performance are allocated 84% to the electric department and 16% to the gas department.

6. For 1995, the employee safety benchmark is set at 1.20. The rewards and penalties for this incentive are asymmetrical with the maximum reward at \$3 million and the maximum penalty at \$5 million. SDG&E reports that it experienced 35 lost-time accidents in 1995, resulting in an LTA OSHA frequency of .90 and a reward of \$3 million.

7. SDG&E notes that the 35 lost-time accidents in 1995 were its lowest ever and are due to the continuing efforts to implement programs and activities aimed at improving employee safety.

8. In 1994, SDG&E reported 42 lost-time accidents.

9. The CACD has reviewed SDG&E's employee safety performance reward calculations and concur that they are reasonable. SDG&E is authorized to record recovery of its \$3 million reward.

#### Customer Satisfaction

10. The non-price performance indicator for customer satisfaction is based on the utility's year-to-date performance as reported in the Customer Service Monitoring System (CSMS) Results (Fourth Quarter and Year-to-Date). Rewards or penalties received for customer satisfaction performance are allocated 84% to the electric department and 16% to the gas department.

11. CSMS is an internally-generated survey that SDG&E has conducted since the 1970s. It assesses customer satisfaction

with seven service areas based on interviews with a sample of customers receiving the particular service over the subject year. For 1995, the customer satisfaction benchmark is set at 92.0%. The maximum reward or penalty for this incentive is \$2 million.

12. For the second year in a row, SDG&E achieved a "Very Satisfied" CSMS rating. SDG&E credits the achievement primarily to the ongoing, day-to-day efforts of employees to provide the best possible service to customers.

13. The 95.2% score for 1995 is the highest SDG&E has ever earned. It exceeds the customer satisfaction benchmark and results in a \$2 million reward for 1995.

14. To ensure that the CSMS Results remain an unbiased and valid measure of customer satisfaction, D.94-08-023 directed that the survey results be audited by a non-affiliated third party. An audit was conducted by Armando Martinez & Company, finding SDG&E's 1995 CSMS results to be unbiased and valid. The auditor's report was attached to SDG&E's Base Rates Report as an addendum.

15. SDG&E's CSMS Results for 1994 was 95%.

16. The CACD has reviewed SDG&E's customer satisfaction performance reward calculations and concur that they are reasonable. SDG&E is authorized to record recovery of its \$2 million reward.

#### System Reliability

17. The non-price performance indicator for system reliability is based on the utility's performance in the System Average Interruption Duration Index (SAIDI) as reported in the annual Electric Distribution System Performance Report. Rewards or penalties received for system reliability performance are allocated 100% to the electric department.

18. SAIDI measures the average electric service interruption duration per customer served per year, excluding major events. Primary outages that occur during the year are measured and recorded and used to calculate the SAIDI performance for the operating districts and the system. For 1995, the SAIDI benchmark is 70 minutes.

19. The utility reports a 67.4 minutes total system SAIDI score for 1995, resulting in a \$500,000 reward for the year.

20. SDG&E states that for the 1988-1995 period, its SAIDI scores, excluding major events, averaged 73.2 minutes. Only in 1989 was SDG&E's SAIDI score lower than that recorded in 1995. Its score for 1994 was 70.1 minutes.

21. The CACD has reviewed SDG&E's system reliability calculations and concur that they are reasonable. SDG&E is authorized to record recover of its \$500,000 record for 1995.

National Rate Comparison

22. The only price performance indicator in the Base Rate Mechanism is the national rate comparison, which compares SDG&E's system average electric rate to a national index of investor-owned utilities' system average electric rates. The source of the National Rate Index is the Edison Electric Institute Statistical Yearbook, Advance Release. Rewards or penalties received for national rate comparison performance are allocated 100% to the electric department.

23. SDG&E reports a price performance indicator of 135.9% based on a 1995 system average rate of 9.70 cents per kilowatt-hour and a National Rate Index of 7.14 cents per kilowatt-hour.

24. The price performance indicator is different each year and was designed to be an increasingly difficult target for SDG&E to reach. For 1995, the PBR price performance benchmark is 136%. It was 137% for 1994 and will be 135% in 1996, 133.5% in 1997 and 132% in 1998. The maximum reward or penalty for this incentive is \$10 million.

25. SDG&E met the 1995 price performance benchmark, resulting in no reward or penalty.

26. In 1994, SDG&E outperformed the price performance benchmark by achieving a 135.1% score, based on a 1994 system average rate of 9.60 cents per kilowatt-hour and a National Rate Index of 7.17 cents per kilowatt-hour.

27. The CACD has reviewed SDG&E's national rate comparison performance reward calculations and concur that they are reasonable. SDG&E will record no reward or penalty for 1995.

Two-Way Conditionality

28. In order to ensure a reasonable balance between price and non-price performance, the PBR Base Rate Mechanism includes a two-way conditionality provision, whereby any rewards for SDG&E's price performance are conditional on SDG&E's aggregate non-price performance, and vice-versa.

29. This provision will reduce price performance rewards by any assessed penalty for non-price performance. Conversely, the total amount of a non-price reward would be reduced if SDG&E is assessed a penalty for price performance. If rewards are achieved for both price and the total non-price performance indicators, no conditionality adjustment is made. If penalties are received for both price and the total non-price performance indicators, no conditionality adjustment is made.

30. No conditionality adjustment is made for 1995, because SDG&E met the price performance indicator and achieved rewards for non-price performance indicators.

31. No conditionality adjustment was made in 1994 because SDG&E achieved both price and non-price rewards.

32. The CACD has reviewed SDG&E's two-way conditionality calculations for 1995 and concurs that they are reasonable. SDG&E will record no conditionality adjustment for its 1995 performance year.

Research, Development and Demonstration (RD&D)

33. In compliance with page 11, Item 4 of D.95-04-069, SDG&E also submits with this advice letter filing its report of the change in available RD&D funds resulting from applying the performance-based index.

34. SDG&E calculates that its RD&D authorized revenue increased \$77,000 in 1995 from 1994 for a total 1995 RD&D budget of \$7,401,000.

35. CACD has reviewed SDG&E's calculations and agrees.

FINDINGS

1. SDG&E filed AL 986-E/1012-G on May 15, 1996 requesting approval of its PBR Base Rate Mechanism Final Performance Report for 1995, which transmits the company's revenue sharing calculations and performance indicator rewards under the mechanism for the subject year.

2. It is reasonable under the Base Rate PBR revenue sharing methodology that SDG&E's 1995 NOI will be allocated 100% to shareholders.

3. It is reasonable under Base Rate PBR incentive provisions for SDG&E to record performance rewards totaling \$5,500,000, of which \$4,700,000 will be recorded for recovery through the ERAM balancing account and \$800,000 will be recorded for recovery through the GFCA balancing account.

ELECTRIC DEPARTMENT

Non-Price Performance		
Employee Safety	\$2,520,000	
Customer Satisfaction	1,680,000	
System Reliability	<u>500,000</u>	
Subtotal		\$ 4,700,000
Price Performance		<u>0</u>
Total Electric Department		\$4,700,000

GAS DEPARTMENT

Non-Price Rewards/(Penalties)		
Employee Safety	\$ 480,000	
Customer Satisfaction	<u>320,000</u>	
Total Gas Department		<u>800,000</u>
Combined 1995 Performance Reward		\$5,500,000
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4. SDG&E's report of Research Development and Demonstration (RD&D) funding under the Base Rates Mechanism was transmitted as Appendix B to AL 986-E/1012-G. It is reasonable for SDG&E to record its 1995 Research Development and Demonstration (RD&D) funding to have increased by \$77,000 for a total RD&D authorized budget of \$7,401,000.

THEREFORE, IT IS ORDERED that:

1. San Diego Gas & Electric Company (SDG&E) is authorized to record \$4,700,000 for its Electric Department 1995 performance achievements and \$800,000 for its Gas Department 1994 performance achievements, totalling an aggregate \$5,500,000 performance reward for 1995 operations.

2. This Resolution is effective today.

I hereby certify that this Resolution was adopted by the Public Utilities Commission at its regular meeting on September 4, 1996. The following Commissioners approved it:



WESLEY FRANKLIN  
Executive Director

DANIEL Wm. FESSLER  
JESSIE J. KNIGHT, Jr.  
HENRY M. DUQUE  
JOSIAH L. NEEPER  
Commissioners

President P. Gregory Conlon, being necessarily absent, did not participate.