

## PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

EVALUATION & COMPLIANCE DIVISION  
Energy Branch

RESOLUTION G-2705  
December 17, 1986

## RESOLUTION

SOUTHERN CALIFORNIA GAS COMPANY (SOCAL GAS). REQUEST FOR AUTHORIZATION TO INCREASE ITS RATES TO COMPENSATE FOR OPERATIONAL AND FINANCIAL ATTRITION AND CERTAIN EXPENSE ADJUSTMENTS, RESULTING IN AN ANNUAL REVENUE INCREASE OF \$27.925 MILLION.

By Advice Letter 1653, filed September 19, 1986, SoCal Gas requests authorization to increase its rates and Gas Margin by \$27,925,000. The facts are as follows:

1. The purpose of the filing is to compensate for the operational and financial attrition expected in the calendar year 1987, and is made pursuant to Decision 85-12-076 which was issued following a generic proceeding including all California energy utilities. Ordering Paragraph 1.e. of the Decision allows SoCal Gas to continue the Attrition Rate Adjustment (ARA) method for 1987.
2. SoCal Gas requests that the increase in authorized margin be made effective January 1, 1987 as contemplated in Decision 85-12-076. The requested revenue requirement included herein has been reflected in SoCal Gas' Consolidated Adjustment Mechanism (CAM) Application 86-09-030. Rates associated with base revenue amounts authorized by this resolution will be set in that proceeding.
3. The ratemaking elements of SoCal Gas' requested 1987 attrition increase are shown in Attachment A. SoCal Gas' adopted capital structure for Attrition Year 1986 and requested capital structure for Attrition Year 1987 are shown in Attachment B.
4. The attrition increase relating to operating expense is determined by an indexing formula approved by this Commission in Decision 85-12-076.
5. In compliance with Decision 85-12-076, SoCal Gas has included in this attrition filing no change in capital ratios, but has included updated embedded cost of debt and forecast of embedded cost of debt during 1987.

In Advice Letter 1653 SoCal Gas requested adoption of 10.17% for long term debt. However, staff review indicates that 10.06% is a more appropriate figure, which would in turn reduce the requested overall rate of return from 11.56% to 11.51% for Attrition Year 1987. Calculations are shown in Attachment B. SoCal Gas has, by letter to the Evaluation and Compliance Division, agreed to this change.

6. The rate of return reduction to 11.51% reduces the allowable attrition revenues by \$1,185,000, plus franchise requirements and uncollectibles. The net reduction appears in the "Adopted" column for the line marked "Generic Attrition Allowance" in Attachment A.

7. In Advice Letter 1653 SoCal Gas did not include reduction of revenue requirement due to interest synchronization. Utility work papers show that consideration of interest synchronization will reduce revenue requirements by \$5,814,000, plus franchise requirements and uncollectibles. SoCal Gas has agreed to this change, and it is shown as a line item in Attachment A.

8. SoCal Gas' request includes income taxes based on 1986 tax rates in effect. Consideration of the revenue requirement impacts of the Tax Reform Act of 1986 is deferred to Order Instituting Investigation 86-11-019, which orders that all revenue collected in 1987 are subject to refund pending outcome of that proceeding.

9. The Evaluation and Compliance Division has reviewed SoCal Gas' request and associated work papers, and recommends that SoCal Gas be authorized to increase its Gas Margin by \$20,772,000, effective January 1, 1987, and to increase its rates coincident with the increase in Gas Margin. Calculation of the total recommended increase is shown in Attachment A. SoCal Gas is in agreement with these changes from its original request.

10. In Advice Letter 1653 SoCal Gas anticipated that rates corresponding to the authorized increase in Gas Margin would become effective on January 1, 1987. However, a decision in SoCal Gas' CAM Application 86-09-030, following which rates would have been adjusted, will not be out by then. As a matter of policy, it is preferable to match authorized revenues and rates wherever possible. Therefore SoCal Gas should be authorized to increase rates by \$20,772,000, effective January 1, 1987. If SoCal Gas elects to defer the effective date of the attrition rate increase (e.g. to the effective date of the new CAM rates, or earlier), then the authorized increase in Gas Margin should not accrue interest until rates are in place. In this instance SoCal Gas should not increase Gas Margin, but should be authorized to record in a deferred debit account debits based on \$20,772,000 in annual revenues. These entries should be calculated in the same way that CAM account entries are calculated, with the exception that during the interim period between January 1, 1987 and the effective date of the \$20,772,000 rate increase the deferred debit account should not accrue interest.

When the attrition-related rate increase does become effective, the balance in the deferred debit account should be transferred to SoCal Gas' CAM account, and the authorized Gas Margin should be increased by \$20,772,000.

11. Advice Letter 1653 requests an increase of \$27,925,000 in Gas Margin, but notes that this amount would be increased to \$42,923,000 if the Stipulation and Agreement approved in Decision 86-08-025 does not become effective. Work papers were provided to support only the lower figure, as if the stipulation were in effect. Decision 86-08-025 adopted a stipulated return on equity of 13.9% and the capital ratio shown in Attachment B. According to its terms, the stipulation does not become effective until the Commission order is final and no longer subject to appeal. However, the Federal Executive Agencies (FEA) have filed a petition for writ of review of Decision 86-08-025 with the California Supreme Court.

The Commission should now authorize an increase in SoCal Gas' Gas Margin of \$20,772,000 (or modified per Paragraph 10 above), which is based on the assumption that the stipulation in Decision 86-08-025 will become effective. Because that decision has not yet become final, the Commission should at the same time authorize SoCal Gas to record in a memorandum account monthly debits based on the pro rata difference between \$27,925,000 and \$42,923,000 (or such amount as the Commission may direct after review of SoCal Gas' additional data), plus interest at the same rate as allowed in SoCal Gas' CAM account. This memorandum account should protect SoCal Gas' revenues in the event the stipulation approved in Decision 86-08-025 does not become effective.

Because SoCal Gas has provided no supporting work papers for the \$42,923,000 figure, it should do so, in order that the memorandum account debit amounts can be reviewed by the Evaluation and Compliance Division.

12. The \$20,772,000 authorized by this Resolution should be subject to refund, plus interest, if the stipulation approved in Decision 86-08-025 does not become effective and if the Commission should in a final decision adopt a return on equity lower than 13.9%.

**THEREFORE:**

1. Southern California Gas Company (SoCal Gas) is authorized to increase its Gas Margin by \$20,772,000 to compensate for operational and financial attrition and certain expense adjustments, effective January 1, 1987, and to coincidentally file revised tariff schedules to increase base rates by \$20,772,000 on annual revenues, also effective January 1, 1987. Rate changes shall be calculated on a system average percent change basis.

2. If the rate increase is not made effective January 1, 1987, then the deferred debit mechanism discussed in Paragraph 10 above shall be put in place. SoCal Gas shall file revised tariff schedules which include the \$20,772,000 in base rates to become effective no later than the effective date of rate revisions authorized by Commission decision in SoCal Gas' pending Consolidated Adjustment Mechanism Application 86-09-030.

3. SoCal Gas is authorized to record in a memorandum account monthly debits based on the difference between \$27,925,000 and \$42,923,000 in annual revenue (or such amount as the Commission may direct after review of SoCal Gas' additional data). When and if the Stipulation and Agreement adopted in Decision 86-08-025 becomes effective, the memorandum account shall be terminated. The memorandum account shall accrue interest at the same rate authorized for SoCal Gas' CAM account.

4. SoCal Gas shall provide to the Evaluation and Compliance Division work papers supporting the amounts to be debited to the memorandum account, including revisions if necessary to reflect the adopted return on debt shown in Attachment B and any reduction in revenue requirements for interest synchronization.

5. Should the Commission, as a result of the Federal Executive Agencies' petition to the California Supreme Court, thereafter issue an order providing for a 1987 return on equity lower than 13.9%, then the \$20,772,000 authorized in this resolution is subject to refund plus interest at the same rate authorized for SoCal Gas' CAM account.

6. This Advice Letter shall be marked to show that it was authorized for filing by Commission Resolution G-2705. This Resolution is effective today.

I certify that this Resolution was adopted by the Public Utilities Commission at its regular meeting on December 17, 1986. The following Commissioners approved it:



Executive Director

DONALD VIAL  
President  
VICTOR CALVO  
FREDERICK R. DUDA  
STANLEY W. HULETT  
Commissioners

SOUTHERN CALIFORNIA GAS COMPANY  
1987 ATTRITION ALLOWANCE SUMMARY  
(Dollars in Thousands)

	<u>Requested</u>	<u>Adopted</u>
O&M for Attrition Related to Inflation:		
Labor O&M	\$12,100	\$12,100
Nonlabor O&M	<u>5,552</u>	<u>5,552</u>
	17,652	17,652
Attrition Related to Rate Base Increases:		
Ad Valorem Taxes	1,829	1,829
Depreciation	11,158	11,158
Return	16,675	16,675
Income Taxes Related to Return	<u>17,484</u>	<u>17,484</u>
Subtotal	47,146	47,146
Attrition Related to Charges in Tax Deductions and Other Tax Effects		
Income Taxes	16,947	18,049
Financial Attrition:		
Return and Related Income Taxes	<u>(53,953)</u>	<u>(56,240)</u>
Generic Attrition Allowance	<u>27,792</u>	<u>26,607</u>
Interest Synchronization	N/A	(5,814)
Other 1987 Attrition Items	<u>(468)</u>	<u>(468)</u>
Total, Excluding F&U	<u>27,324</u>	<u>20,325</u>
Total, Including F&U @ 2.20%	<u><u>27,925</u></u>	<u><u>20,772</u></u>

SOUTHERN CALIFORNIA GAS COMPANY  
ATTRITION YEAR 1987 CHANGES IN COST OF CAPITAL

	<u>Capital Ratio</u>	<u>Cost Of Capital</u>	<u>Weighted Cost Of Capital</u>
<u>Attrition Year 1986 (D.86-08-025)</u>			
Long Term Debt	45.90%	12.06%	5.54%
Preferred Stock	9.10	6.91	0.63
Common Equity	<u>45.00</u>	<u>14.60</u>	<u>6.57</u>
Total	100.00%		12.74%
<u>Attrition Year 1987 (Requested)</u>			
Long Term Debt	45.90%	10.17%	4.67%
Preferred Stock	9.10	6.91	0.63
Common Equity	<u>45.00</u>	<u>13.90</u>	<u>6.26</u>
Total	100.00%		11.56%
<u>Attrition Year 1987 (Adopted)</u>			
Long Term Debt	45.90%	10.06%	4.62%
Preferred Stock	9.10	6.91	0.63
Common Equity	<u>45.00</u>	<u>13.90</u>	<u>6.26</u>
Total	100.00%		11.51%