

PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

EVALUATION & COMPLIANCE DIVISION
Energy Branch

RESOLUTION G-2706
December 17, 1986

RESOLUTION

SAN DIEGO GAS AND ELECTRIC COMPANY (SDG&E), GAS DEPARTMENT,
REQUEST FOR AUTHORIZATION TO INCREASE THE BASE COST AMOUNT TO
COMPENSATE FOR OPERATIONAL AND FINANCIAL ATTRITION AND
CERTAIN EXPENSE ADJUSTMENTS, RESULTING IN AN INCREASE OF
\$10,270,800 IN THE BASE COST AMOUNT.

By Advice Letter No. 593-G, filed October 27, 1986, San Diego Gas and Electric Company (SDG&E) requested authorization to increase its Base Cost Amount. The filing was amended by Advice Letter 593-G Supplement filed December 3, 1986, in which SDG&E requests a Gas Department attrition increase of \$10,270,800. The facts are follows:

1. The purpose of this filing is to revise the Preliminary Statement to reflect an increase in the Gas Department Base Cost Amount to offset 1987 financial and operational attrition and certain expense adjustments. This filing is being made pursuant to Decision 85-12-076 dated December 18, 1985 in Application A.84-12-015.
2. SDG&E requests that the increase in Base Cost Amount become effective January 1, 1987 as contemplated by Decision 85-12-076, but requests no change in rates. This could result in an undercollection in SDG&E's Consolidated Adjustment Mechanism (CAM) account, depending on future adjustments for the Tax Reform Act of 1986 and other factors.
3. The ratemaking elements of SDG&E's requested increase are shown in Attachment A. SDG&E's adopted capital structure for Test Year 1986 and requested capital structure for Attrition Year 1987 are shown in Attachment B.
4. SDG&E requests an attrition increase relating to general operating and maintenance expense of \$1,246,200. SDG&E should be authorized to increase such expenses by \$1,119,800, an amount calculated by an indexing formula approved by this Commission in Decision 85-12-076. The disallowed amount of \$126,400 has been requested by SDG&E for escalation of postage costs. The increased postage costs are due to customer growth, not an increase in postage rates, and as such are not allowable attrition expenses. This adjustment to SDG&E's request is shown in Attachment A.

5. SDG&E has used a five year average to estimate net plant addition in 1987.
6. SDG&E has included in this attrition filing an updated embedded cost of debt and forecast of embedded cost of debt during 1987. The 1987 capital ratio is that adopted by Decision 85-12-108 in SDG&E's last General Rate Case, Application 84-12-015. The 1987 return on equity was adopted in Decision 85-12-076. The total weighted cost of capital is 11.61%.
7. Advice Letter 593-G Supplement correctly includes a net revenue reduction for interest synchronization.
8. SDG&E's 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 (OII) 86-11-019, which orders that all revenues collected in 1987 are subject to refund pending outcome of that proceeding.
9. SDG&E's request includes \$6,504,500 to reverse a conservation-related refund previously ordered for 1986. The refund amount is now amortized, and the 1986 reduction is reversed, appearing as an increase for 1987.
10. The Evaluation and Compliance Division has reviewed SDG&E's attrition request and associated workpapers, and recommends that an increase of \$10,144,400 in Base Cost Amount be authorized. The total and its elements are shown in Attachment A.
11. Although SDG&E requests no increase in rates equal to the authorized increase in Base Cost Amount, as a matter of policy it is preferable to match authorized revenues and rates wherever possible. Therefore, SDG&E should be authorized to increase Base Cost Amount by \$10,441,400 on the effective date of a corresponding increase in base rates. The earliest such effective date authorized should be January 1, 1987, and the latest date should be the effective date of revised tariff schedules filed in compliance with a Commission order in SDG&E's pending ECAC/ERAM Application 86-07-008.

If SDG&E elects to defer the effective date of the attrition rate increase (e.g. to the effective date of the new ECAC/ERAM rates, or earlier), then the authorized increase in Base Cost Amount should not accrue interest until rates are in place. In this instance SDG&E should not increase Base Cost Amount, but should be authorized to record in a deferred debit account pro rata debits based on \$10,441,400 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 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 SDG&E's CAM account, and authorized Base Cost Amount should be increased by \$10,441,400.

12. In Advice Letter 593-G SDG&E requests an attrition increase assuming that the Stipulation and Agreement approved in Decision 86-08-025 will become effective by January 1, 1987. That decision adopted a return on equity of 13.9% for 1987. 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 SDG&E's Base Cost Amount by \$10,441,400, which is based on the assumption that the stipulation in Decision 86-08-025 will become effective. Because that decision is not yet final, the Commission should also authorize SDG&E to file, at the utility's election, an advice letter establishing a memorandum account which should protect SDG&E's revenues in the event the stipulation approved in Decision 86-08-025 does not become effective. SDG&E could record in the memorandum account monthly debits based on the difference between the \$10,441,400 authorized herein and attrition revenues calculated as if the stipulation does not become effective. The memorandum account should accrue interest at the same rate as allowed in SDG&E's CAM account.

If SDG&E chooses to request the memorandum account, it should provide supporting work papers showing revenue requirement calculations similar to those used to calculate the \$10,441,400 adopted herein.

13. The \$10,441,400 authorized by this Resolution should be subject to refund, plus interest, if the Stipulation and Agreement 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%.

14. Public notice of these filings has been made by mailing copies of the advice letters to other utilities, government agencies and all interested parties who requested them. The Commission has received no protests in this matter.

THEREFORE:

1. San Diego Gas and Electric Company is authorized to increase Gas Department Base Cost Amount (SDG&E) by \$10,144,400 to compensate for operational and financial attrition and certain expense adjustments, to become effective January 1, 1987, and to coincidentally file revised tariff schedules to increase base rates by \$10,441,400 in annual revenues, also effective January 1, 1987. Rate changes shall be calculated on a system average percent change basis.
2. If the attrition-related rate increase is not made effective January 1, 1987, then the deferred debit mechanism discussed in Paragraph 11 above shall be put into place. SDG&E shall file revised tariff schedules which include the \$10,441,400 in base rates, to become effective no later than the effective date of rate revisions authorized by Commission decision in SDG&E's pending ECAC/ERAM Application 86-07-008.
3. SDG&E is authorized to file, at its election, and advice letter to record in a memorandum account monthly debits based on the pro rata difference between \$10,441,400 in annual revenues and attrition revenues calculated assuming the Stipulation and Agreement adopted in Decision 86-08-025 does not become effective. The memorandum account shall accrue interest at the same rate authorized for SDG&E's CAM account.
4. 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 \$10,441,400 authorized in the this Resolution is subject to refund, plus interest at the same rate as authorized for SDG&E's CAM account.
5. The tariff sheets filed shall be marked to show that they are authorized for filing by Commission Resolution G-2706. 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:

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



Executive Director

SAN DIEGO GAS & ELECTRIC COMPANY
1987 ATTRITION ALLOWANCE SUMMARY
GAS DEPARTMENT

	<u>Requested</u>	<u>Adopted</u>
Operating and Maintenance Expenses	\$ 1,246,200	\$1,119,800
Rate Base	5,721,400	5,721,400
Financial (Rate of Return Changes)	(2,713,000)	(2,713,000)
Interest Synchronization	<u>(488,300)</u>	<u>(488,300)</u>
Total Attrition	\$ 3,766,300	\$3,639,900
Conservation Refund Reversal	<u>6,504,500</u>	<u>6,504,500</u>
TOTAL	<u>\$10,270,800</u>	<u>\$10,144,400</u>

RESOLUTION G-2706
ATTACHMENT B

SAN DIEGO GAS AND ELECTRIC 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>Test Year 1986 (D.85-12-108)</u>			
Long-Term Debt	43.00%	10.01%	4.304%
Preferred Stock	9.00	9.64	0.868
Common Equity	<u>48.00</u>	15.00	<u>7.200</u>
Total	100.00%		12.372%
<u>Attrition Year 1987</u>			
Long-Term Debt	42.00%	9.54%	4.007%
Preferred Stock	8.50	8.52	0.724
Common Equity	<u>49.50</u>	13.90	<u>6.881</u>
Total	100.00%		11.612%