

PUBLIC UTILITIES COMMISSION OF THE STATE CALIFORNIA

EVALUATION & COMPLIANCE DIVISION
Energy BranchRESOLUTION G-2707
December 17, 1986

RESOLUTION

SAN DIEGO GAS AND ELECTRIC COMPANY (SDG&E) STEAM DEPARTMENT,
REQUEST FOR AUTHORIZATION TO DECREASE ITS BASE RATE REVENUE
TO COMPENSATE FOR OPERATIONAL AND FINANCIAL ATTRITION AND
CERTAIN EXPENSE ADJUSTMENTS, RESULTING IN A DECREASE OF
\$27,000 IN BASE RATE REVENUE.

By Advice Letter No. 146-H, filed October 27, 1986, SDG&E requested authorization to decrease its Base Rate Revenue. The filing was amended by Advice Letter 146-H Supplement filed December 3, 1986, in which SDG&E requests a Steam Department attrition decrease of \$27,000. The facts are as follows:

1. The purpose of the filing is to revise the Preliminary Statement to reflect a decrease in the Steam Department Authorized Base Rate Revenue 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 84-12-015.
2. SDG&E requests that the increase in Base Rate Revenue become effective January 1, 1987, as contemplated by Decision 85-12-076, but requests no change in rates.
3. The ratemaking elements of SDG&E's requested increase are shown in Attachment A. SDG&E's adopted capital structure for Attrition 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 \$32,600, an amount calculated by an indexing formula approved by this Commission in Decision 85-12-076.
5. SDG&E has used a five year average to estimate net plant additions 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 11.16%.

7. Advice Letter 146-H 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. The Evaluation and Compliance Division has reviewed SDG&E's attrition request and associated workpapers, and recommends that the requested decrease of \$27,000 in Base Rate Revenue be authorized.

10. Although SDG&E requests no decrease in rates equal to the authorized decrease in Base Rate Revenues, as a matter of policy it is preferable to match authorized revenues and rates wherever possible. Therefore, SDG&E should be authorized to decrease Base Rate Revenues by \$27,000 on the effective date of a corresponding decrease 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 decrease (e.g. to the effective date of the new ECAC/ERAM rates, or earlier), then the authorized decrease in Base Rate Revenues should not accrue interest until rates are in place. In this instance SDG&E should not decrease Base Rate Revenues, but should be authorized to record in a deferred debit account pro rata debits based on \$27,000 decrease in annual revenues. These entries should be calculated in the same way that SRAM account entries are calculated, with the exception that during the interim period between January 1, 1987 and the effective date of the rate decrease the deferred debit account should not accrue interest.

When the attrition-related rate decrease does become effective, the balance in the deferred debit account should be transferred to SDG&E's SRAM account, and authorized Base Rate Revenues should be decreased by \$27,000.

11. In Advice Letter 146-H SDG&E requests an attrition decrease 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 a decrease in SDG&E's Base Rate Revenues of \$27,000, 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 \$27,000 decrease authorized herein and the attrition revenue decrease 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 SRAM 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 \$27,000 decrease adopted herein.

12. The \$27,000 decrease authorized by this Resolution should be subject to further adjustment, 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 higher than 13.9%.

13. 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 (SDG&E) is authorized to decrease Steam Department Base Rate Revenue by \$27,000 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 decrease base rates by \$27,000 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 decrease is not made effective January 1, 1987, then the deferred debit mechanism discussed in Paragraph 10 above shall be put into place. SDG&E shall file revised tariff schedules, which include the \$27,000 decrease 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, an advice letter to record in a memorandum account monthly debits based on the pro rata difference between \$27,000 decrease in annual revenues and the attrition revenue decrease 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 SRAM 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 higher than 13.9%, then the \$27,000 decrease authorized in this Resolution is subject to further adjustment, plus interest at the same rate as authorized for SDG&E's SRAM account.

5. The tariff sheets filed shall be marked to show that they are authorized for filing by Commission Resolution G-2707. 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

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

	<u>Requested</u>	<u>Adopted</u>
Operating and Maintenance Expenses	\$ 32,600	\$32,600
Rate Base	(52,000)	(52,000)
Financial (Rate of Return Changes)	(6,000)	(6,000)
Interest Synchronization	<u>(1,600)</u>	<u>(1,600)</u>
Total Attrition	\$(27,000)	\$(27,000)

RESOLUTION G-2707
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%