

UTILITIES COMMISSION OF THE STATE OF CALIFORNIA
ADVISORY
FINANCE DIVISION
San Diego

RESOLUTION G-2757
December 17, 1987

E-2

R E S O L U T I O N
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RESOLUTION G-2757, SAN DIEGO GAS AND ELECTRIC COMPANY,
GAS DEPARTMENT, REQUESTING AN INCREASE IN BASE COST
AMOUNT TO OFFSET 1988 OPERATIONAL AND FINANCIAL
ATTRITION AND CERTAIN EXPENSE ADJUSTMENTS; BY ADVICE
LETTER 625-G, FILED OCTOBER 15, 1987.

SUMMARY

1. By Advice Letter No. 625-G, filed October 15, 1987 and subsequent changes in response to inquiries from the staff of the Commission Advisory & Compliance Division (CACD), San Diego Gas & Electric Company (SDG&E) requests authorization to increase its Base Cost Amount by \$894,045 with no change in rates. SDG&E requests this increase to compensate for 1988 operational and financial attrition, estimated reduction in 1988 taxes due to the Tax Reform Act of 1986 (TRA) and intervenor compensation payments.
2. SDG&E's requested increase of \$894,045 is the net of (a) an increase of \$5,268,200 for conventional operational and financial attrition, (b) a decrease of \$6,800,900 for estimated reductions in 1988 taxes as a consequence of the TRA, (c) an increase of \$2,422,100 for operational and TRA, financial attrition for miscellaneous items, and (d) an increase of \$4,565 for intervenor payments.
3. Ordering Paragraph 3 of Decision (D.) 87-12-068 requires that the adopted cost of capital from Ordering Paragraph 1 be used in conjunction with SDG&E's advice letter filing. By this Resolution, SDG&E is ordered a decrease of \$3,136,655.

CORRECTION

THIS DOCUMENT HAS
BEEN REPHOTOGRAPHED

TO ASSURE

LEGIBILITY

Original

PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

COMMISSION ADVISORY
AND COMPLIANCE DIVISION
Energy Branch

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BACKGROUND

4. D.85-12-076 authorized SDG&E to revise gas base rates in its service territory to compensate for operational and financial attrition for 1988.
5. Operational attrition is a decrease in a utility's net operating income due to increases in operation and maintenance expenses attributable to inflation between general rate case test years.
6. Financial attrition is a change in a utility's net operating income due to changes in rate base and cost of capital between general rate case test years.
7. SDG&E's presently authorized capital structure and its requested capital structure for 1988 are shown in Attachment A to this Resolution.
8. SDG&E, in its October filing, requested an increase of \$836,245 for 1988. In response to inquiries from CACD, this was later revised to \$894,045.

DISCUSSION

9. The CACD reviewed SDG&E's request and associated workpapers and found it necessary to categorize SDG&E's total request for \$894,045 as follows : (a) \$5,268,200 increase for conventional operational and financial attrition, (b) \$6,800,900 decrease for estimated reductions in 1988 taxes, (c) \$2,422,100 increase for operational and financial attrition for miscellaneous items, and (d) \$4,645 increase for payments to TURN. These items are listed in Attachment B.
10. In accordance with D.87-12-068, the CACD recalculated the conventional attrition allowance at the lower return on equity adopted therein to be \$2,863,600. This is a decrease of \$2,404,600 from SDG&E's request. The adopted rate of return is shown in Attachment A.
11. On November 14, 1986, the Commission issued Order Instituting Investigation (I.)86-11-019 for the purpose of reflecting the impact of the TRA in rates. SDG&E's request for conventional operational and financial attrition incorporates the old Federal tax rate of 46%

and the old State tax rate of 9.6%. Estimated TRA effects are considered as a separate line item. SDG&E proposes that its estimate of a \$6,800,900 decrease be subsequently tried up to conform to the Commission's forthcoming decision in I.86-11-019. The CACD has adjusted SDG&E's request to \$6,365,400 to reflect the lower return on equity adopted in D.87-12-068. This is a change of \$435,500 from SDG&E's request.

12. SDG&E's request of \$2,422,100 for attrition allowance for miscellaneous items consists of (a) \$576,800 for differences between the CACD's and SDG&E's methodology, (b) \$1,484,800 for miscellaneous tax adjustments, and (c) \$360,500 for the taxation of possessory interests by the State Board of Equalization starting 1988.

13. With respect to SDG&E's request for \$576,800 for differences between the CACD and SDG&E methodology in calculating Book Depreciation, State and Federal Tax Depreciation and Interest Expense, CACD has used the methodology adopted in the Southern California Edison Company (Edison) general rate case (D.87-12-066) and in the 1988 attrition filings for Pacific Gas & Electric Company (PG&E), Sierra Pacific Power Company (Sierra), and Southwest Gas Corporation (SWG). SDG&E's request for \$576,800 is denied.

14. SDG&E has requested \$1,484,800 for miscellaneous tax adjustments. The Commission's Attrition Rate Adjustment (ARA) mechanism for energy utilities does not provide for all of the numerous changes in a utility's operations between general rate cases. The ARA allows for changes in tax rates. SDG&E's request for \$1,484,800 is not due to a change in tax rates and is therefore denied.

15. SDG&E has requested \$360,500 for the taxation of possessory interests by the State Board of Equalization starting 1988. D.85-12-076 in Application (A.)82-12-48 et al authorizes SDG&E to recover revenue for ad valorem tax changes. SDG&E's request for \$360,500 is granted.

16. SDG&E's request for a \$4,645 increase relates to recovery of payments made to TURN as directed in D.85-08-012, D.86-10-040 and D.86-12-053. SDG&E's request is granted.

17. Per D.87-12-068 and the terms of this Resolution, SDG&E should decrease its gas Base Cost

Amount by \$3,136,655 and defer the corresponding rate decrease until the effective date of rates resulting from its recent gas implementation decision D.87-12-039.

18. SDG&E should true up its estimated 1988 tax reduction due to the TRA following Commission decision in I.86-11-019, including retroactive adjustment to the Sales Adjustment Mechanism (SAM) account for the period from January 1, 1988 to the effective date of rates ordered by that decision.

19. Public notification of this filing has been made by supplying copies to other utilities, governmental agencies and to all interested parties who requested notification. No protests were received regarding SDG&E's Advice Letter No. 625-G.

THEREFORE, IT IS ORDERED THAT :

1. San Diego Gas and Electric Company shall decrease its Gas Department Base Cost Amount by \$3,136,655 effective January 1, 1988, as shown in Attachment B to this Resolution.
2. San Diego Gas and Electric Company shall defer the corresponding rate decrease until the effective date of rates resulting from its recent gas implementation order, Decision 87-12-039.
3. Within seven (7) days of the effective date of this Resolution, San Diego Gas and Electric Company shall file a revised Preliminary Statement reflecting this decrease in revenue adopted by this Resolution.
4. The tariff sheets shall be marked to show that they were authorized for filing by Commission Resolution G-2757, and that the revised Base Cost Amount is effective January 1, 1988.
5. Final consideration of the impacts of the Tax Reform Act of 1986 is deferred to Investigation 86-11-019, including 1987 effects of the act, true up of the estimated 1988 tax reduction adopted herein and adjustments for the period from January 1, 1988 to the effective date of rate revisions ordered by the decision in that investigation.

6. This Resolution is effective today.

I certify that this Resolution was adopted by the Public Utilities Commission at the December 22, 1987 continuation of its regular meeting of December 17, 1987. The following Commissioners approved it:

STANLEY W. HULETT
President
DONALD VIAL
FREDERICK R. DUDA
G. MITCHELL WILK
JOHN B. OHANIAN
Commissioners



Executive Director

San Diego Gas & Electric Company
Gas Department
1988 Attrition Allowance

Current Authorized Capital Structure

(Attrition Year 1987)

Component -----	Capital Ratio -----	Cost Factor -----	Weighted Cost -----
Long Term Debt	42.00%	9.54%	4.01%
Preferred Stock	8.50	8.52	0.72
Common Equity	49.50	13.90	6.88
	-----		-----
Total	100.00%		
Rate of Return			11.61%

Requested Capital Structure

(Attrition Year 1988)

Component -----	Capital Ratio -----	Cost Factor -----	Weighted Cost -----
Long Term Debt	40.50%	9.24%	3.74%
Preferred Stock	8.50	7.28	0.62
Common Equity	51.00	13.75	7.01
	-----		-----
Total	100.00%		
Rate of Return			11.37%

Adopted Capital Structure

(Attrition Year 1988)

Component -----	Capital Ratio -----	Cost Factor -----	Weighted Cost -----
Long Term Debt	40.50%	9.24%	3.74%
Preferred Stock	8.50	7.28	0.62
Common Equity	51.00	12.75	6.50
	-----		-----
Total	100.00%		
Rate of Return			10.86%

San Diego Gas & Electric Company
Gas Department
1988 Attrition Allowance

	Amended Request -----	Adopted -----
OPERATIONAL ATTRITION -----		
Non-nuclear labor	\$1,530,300	\$1,530,300
Non-nuclear non-labor	867,000	867,000
	-----	-----
Total Operational Attrition	2,397,300	2,397,300
CAPITAL RELATED ITEMS (incl. Financial Attrition) -----		
Book Depreciation	2,318,700	2,318,700
Amortization	0	0
Ad Valorem Tax	218,500	218,500
State Tax Depreciation	(94,200)	(94,200)
Federal Tax Depreciation	(733,800)	(733,800)
ITC Normalized	140,700	140,700
Other Tax Adjustments	0	0
Interest Expense	0	0
Long Term Debt Costs	(314,000)	(314,000)
referred Stock Costs	(358,400)	(358,400)
Common Equity Costs	1,693,400	(711,200)
	-----	-----
Total Capital Related Items	2,870,900	466,300
	-----	-----
TOTAL ATTRITION RATE ADJ.	5,268,200	2,863,600
TAX REFORM ACT OF 1986 (EST.)	(6,800,900)	(6,365,400)
Other Miscellaneous Items -----		
Differences in methodology	576,800	0
Miscellaneous tax adjustments	1,484,800	0
Possessory Interest	360,500	360,500
	-----	-----
Total miscellaneous items	2,422,100	360,500
Recovery of TURN reimbursement	4,645	4,645
	-----	-----
ATTRITION TOTAL	\$894,045	(\$3,136,655)