

Original

PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

COMMISSION ADVISORY
AND COMPLIANCE DIVISION
Energy Branch

RESOLUTION G-2758
December 17, 1987

R E S O L U T I O N
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RESOLUTION G-2758, SAN DIEGO GAS AND ELECTRIC COMPANY,
STEAM DEPARTMENT, REQUESTING A DECREASE IN BASE RATE
REVENUE TO OFFSET 1988 OPERATIONAL AND FINANCIAL
ATTRITION AND CERTAIN EXPENSE ADJUSTMENTS; BY ADVICE
LETTER 154-H, FILED OCTOBER 15, 1987.

SUMMARY

1. By Advice Letter No. 154-H, 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 decrease its Base Rate Revenue by \$15,100 with no change in rates. SDG&E requests this decrease to compensate for 1988 operational and financial attrition and estimated reduction in 1988 taxes due to the Tax Reform Act of 1986 (TRA).
2. SDG&E's requested decrease of \$15,100 is the net of (a) an increase of \$34,100 for conventional operational and financial attrition, (b) a decrease of \$59,800 for estimated reductions in 1988 taxes as a consequence of the TRA, and (c) an increase of \$10,600 for operational and financial attrition for miscellaneous items.
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 \$29,300.

BACKGROUND

4. D.85-12-076 authorized SDG&E to revise steam 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 a decrease of \$14,900 for 1988. In response to inquiries from CACD, this was later revised to \$15,100.

DISCUSSION

9. The CACD reviewed SDG&E's request and associated workpapers and found it necessary to categorize SDG&E's total request for a decrease of \$15,100 as follows: (a) \$34,100 increase for conventional operational and financial attrition, (b) \$59,800 decrease for estimated reductions in 1988 taxes, and (c) \$10,600 increase for operational and financial attrition for miscellaneous items. These items are listed in Attachment B.
10. In accordance with D.87-12-068, the CAOD recalculated the conventional attrition allowance at the lower return on equity adopted therein to be \$31,000. This is a decrease of \$3,100 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 \$59,800 decrease be subsequently trued up to conform to the Commission's forthcoming decision in I.86-11-019. The CACD has adjusted SDG&E's request to \$59,300 to reflect the lower return on equity adopted in D.87-12-068. This is a change of \$500 from SDG&E's request.

12. SDG&E's request of \$10,600 for attrition allowance for miscellaneous items consists of (a) \$900 for differences between the CACD's and SDG&E's methodology, (b) \$10,700 for miscellaneous tax adjustments, and (c) a \$1,000 decrease for the taxation of possessory interests by the State Board of Equalization starting 1988.

13. With respect to SDG&E's request for \$900 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 \$900 is denied.

14. SDG&E has requested \$10,700 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 \$10,700 is not due to a change in tax rates and is therefore denied.

15. SDG&E has requested a decrease of \$1,000 for the taxation of possessory interests by the State Board of Equalization starting 1988. SDG&E's request is granted.

16. Per D.87-12-068 and the terms of this Resolution, SDG&E should decrease its steam Base Rate Revenue by \$29,300 and defer the corresponding rate decrease until the effective date of rates resulting from its next Steam Energy Cost Adjustment Clause/Steam Revenue Adjustment Mechanism filing.

17. 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 Steam Revenue Adjustment Mechanism (SRAM) account for the period from January 1, 1988 to the effective date of rates ordered by that decision.

18. 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. 154-H.

THEREFORE, IT IS ORDERED THAT :

1. San Diego Gas and Electric Company shall decrease its Steam Department Base Rate Revenue by \$29,300 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 next Steam Energy Cost Adjustment Clause filing.
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-2758, and that the revised Base Rate Revenue 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
Steam 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
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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
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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
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Total	100.00%		
Rate of Return			10.86%

San Diego Gas & Electric Company
Steam Department
1988 Attrition Allowance

	Amended Request -----	Adopted -----
OPERATIONAL ATTRITION		

Non-nuclear labor	\$46,100	\$46,100
Non-nuclear non-labor	18,000	18,000
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Total Operational Attrition	64,100	64,100
CAPITAL RELATED ITEMS		
(incl. Financial Attrition)		

Book Depreciation	4,100	4,100
Amortization	0	0
Ad Valorem Tax	100	100
State Tax Depreciation	0	0
Federal Tax Depreciation	(200)	(200)
ITC Normalized	2,100	2,100
Other Tax Adjustments	0	0
Interest Expense	0	0
Long Term Debt Costs	(8,100)	(8,100)
Preferred Stock Costs	(3,300)	(3,300)
Common Equity Costs	(24,700)	(27,800)
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Total Capital Related Items	(30,000)	(33,100)
TOTAL ATTRITION RATE ADJ.	34,100	31,000
TAX REFORM ACT OF 1986 (EST.)	(59,800)	(59,300)
Other Miscellaneous Items		

Differences in methodology	900	0
Miscellaneous tax adjustments	10,700	0
Possessory Interest	(1,000)	(1,000)
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Total miscellaneous items	10,600	(1,000)
ATTRITION TOTAL	(\$15,100)	(\$29,300)