

## PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

COMMISSION ADVISORY  
AND COMPLIANCE DIVISION  
Advisory Branch

RESOLUTION G-2900  
December 20, 1989

**R E S O L U T I O N**

RESOLUTION G-2900. SAN DIEGO GAS AND ELECTRIC COMPANY. GAS DEPARTMENT. TO REVISE THE PRELIMINARY STATEMENT TO REFLECT AN INCREASE IN GAS DEPARTMENT AUTHORIZED BASE RATE REVENUE WHICH WILL RESULT FROM 1990 OPERATIONAL AND FINANCIAL ATTRITION.

BY ADVICE LETTER 692-G, FILED ON SEPTEMBER 29, 1989.

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**SUMMARY**

1. This Resolution approves a January 1, 1990 increase of \$8,184,000 to San Diego Gas and Electric Company's (SDG&E) Gas Department authorized gas base cost amount. Of the total, \$2,517,000 is for operational attrition, \$5,238,000 is for capital-related attrition, and \$429,000 is for other authorized items.

2. SDG&E is authorized to raise non-core rates effective January 1, 1990 by equal cents per therm. The core's share of the increase will be booked to the Core Fixed Cost Account (CFCA) for disposition in SDG&E's current Annual Cost Allocation Proceeding (ACAP).

**BACKGROUND**

1. In D. 88-12-095 (SDG&E's test year 1989 general rate case), the Commission authorized SDG&E to revise gas base rates to compensate for 1990 financial and operational attrition.

2. 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.

3. 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.

4. In D. 89-11-068 (the cost of capital proceeding), the Commission adopted the 1990 capital structure and cost of capital for SDG&E shown in Attachment A.

NOTICE

1. Public notice of this advice letter was made by publication in the Commission calendar and by SDG&E's mailing copies to other utilities, governmental agencies, and to all interested parties who requested notification.

PROTESTS

1. On October 24, 1989, the Division of Ratepayer Advocates (DRA) protested SDG&E's advice letters 163-H, 692-G, and 778-E (steam, gas, and electric attrition). Although this protest was made after the twenty-day time limit had expired, DRA explained that the San Francisco area earthquake of October 17, 1989 had delayed its filing. We will consider the protest.

2. DRA alleges

"that SDG&E is operating under substantially reduced corporate staffing levels, resulting in significant savings in its Results of Operations (RO)" (Protest, pg. 1).

According to DRA,

"these reductions are not the product of normal or expected changes in operating costs generally contemplated during attrition years, such as due to productivity improvements. Rather they are the product of the merger, an extraordinary event within management's control." (Protest, pg. 1).

DRA notes that its Motion to Establish Memorandum Accounts to Record Expenditures, Savings, and Related Cost Impacts Associated With the Merger, filed May 18, 1989 in A. 88-12-035, is still pending. Failing the granting of that Motion, DRA argues that

"savings due to reductions in [SDG&E's] corporate staffing levels is an issue timely raised here and ripe for investigation." (Protest, pg. 2).

3. On November 6, 1989, SDG&E filed its written response to DRA's protest. SDG&E argues that DRA is asking for an

"unwarranted departure from the Commission's adopted attrition ratemaking procedures" (Response, pg. 2)

that would

"undermine the beneficial incentives established by the ARA mechanism" (Response, pg. 3).

Specifically, SDG&E claims that the attrition mechanism was intended to give the benefits of efficiency gains between

general rate case test years to shareholders, thereby encouraging such gains over the longer-term (Response, pg. 2). SDG&E also questions DRA's assumption that staff reductions are necessarily merger-produced savings, and claims that

"Savings' produced by merger-related employee attrition are being offset by the need for remaining employees to work overtime and by the costs of hiring independent contractors to perform certain functions." (Response, pg. 4)

4. On November 17, 1989, DRA filed a written Reply to SDG&E's Response. DRA restates the thesis of its Protest:

"the pending merger is an extraordinary event fully within management's control. As such, the alleged significant reductions in corporate staffing levels on which the DRA bases its protests are not due to the kind of productivity increases or efficiencies normally encountered in an attrition year request for rate adjustment. They are the product of the merger.

By its protests the DRA does not urge 'an unwarranted departure' from precedent nor the undermining of 'the beneficial incentives established by the ARA mechanism' as SDG&E claims. Rather the DRA seeks to draw to this Commission's attention the distinction between these uniquely merger-related efficiencies and the backdrop of 'business as usual' against which prior attrition year analyses have been conducted." (Reply, pg. 1)

5. Though we understand DRA's desire to cover its procedural bases, the issue raised in DRA's protest is on its face most suited to resolution in the merger proceeding itself, A. 88-12-035. We intend soon to rule on DRA's Motion in that case. As SDG&E correctly notes, the Attrition Rate Adjustment (ARA) mechanism is intended to provide incentives for utility managers to improve the efficiency of the utility, not to serve as a forum to relitigate general rate case issues.

#### DISCUSSION

1. On September 29, 1989, SDG&E filed Advice Letter 692-G requesting a 1990 gas base cost amount increase of \$7,729,000 to compensate for attrition, assuming the 1989 authorized cost of capital. The advice letter also notes that SDG&E's showing in the cost of capital proceeding (A.89-05-023) includes a \$2,333,000 gas base rate increase to compensate for financial attrition.

2. CACD has recalculated SDG&E's request using the rate of return adopted for SDG&E in D. 89-11-068. This and other revenue changes are shown in Attachment B.

3. As authorized in D. 88-12-085, SDG&E requests a \$408,000 increase associated with the amortization of the December 31, 1988 balance in its gas department Conservation/Load Management Adjustment Account (CLMAC) balancing account. CACD has verified that this amount is reasonable.
4. In addition to the 1990 attrition items explicitly adopted by the Commission in D. 88-12-085, SDG&E's request includes a \$21,000 increase to recover fees paid to intervenors pursuant to Commission orders. CACD has verified that this amount is reasonable.
5. CACD recommends a 1990 increase of \$251,000 from San Diego's request to implement D. 89-11-058. In Ordering Paragraph 2 of that decision, the Commission authorized the utilities to "recover the revenue requirement related to the change to flow-through for the CCFT [California Corporate Franchise Tax] deduction in estimating ratemaking federal income tax expense". This increase is embedded in the capital-related items in Attachment B.
6. CACD recommends that the attrition adjustment be placed in rates by allocating the increase to the core and non-core according to the ratios adopted by the Commission in its May 1, 1988 implementation of D. 87-12-039. CACD recommends that SDG&E be authorized to file new non-core tariffs effective January 1, 1990 and that the amount allocated to the core be booked to the Core Fixed Cost Account pending disposition in A. 89-05-006, SDG&E's current ACAP. CACD recommends that non-core rates be changed by equal cents per therm.

#### FINDINGS

1. For the reasons discussed above, a gas base cost amount increase of \$8,184,000 effective January 1, 1990 is just and reasonable.
2. It is reasonable to allocate the increase according to the ratios adopted by the Commission in its May 1, 1988 implementation of D. 87-12-039, to raise non-core rates by equal cents per therm, and to book the core allocation to the Core Fixed Cost Account pending disposition in A. 89-05-006.

#### THEREFORE, IT IS ORDERED that:

1. San Diego Gas and Electric Company is authorized to increase its Gas Department Authorized Gas Base Cost Amount by \$8,184,000 effective January 1, 1990.
2. San Diego Gas & Electric is authorized to allocate the increase according to the ratios adopted by the Commission in its May 1, 1988 implementation of D. 87-12-039. Non-core rates shall be increased effective January 1, 1990 by equal cents per therm. The core portion of the increase

shall be booked to the Core Fixed Cost Account pending disposition in A. 89-05-006.

3. Advice Letter 692-G and accompanying tariff sheets shall all be marked to show that they were approved for filing by Commission Resolution G-2900.
4. This Resolution is effective today.

I certify that this Resolution was adopted by the Public Utilities Commission at the December 20, 1989 continuation of its regular meeting of December 18, 1989. The following Commissioners approved it:

O. MITCHELL WLK  
President  
FREDERICK R. DUDA  
STANLEY W. HULETT  
JOHN B. OHANIAN  
PATRICIA M. ECKERT  
Commissioners

*Wesley Franklin*  
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Acting Executive Director

San Diego Gas & Electric Company  
1990 Attrition Allowance

Prior Authorized Capital Structure  
(D.88-12-094)

<u>Component</u>	<u>Capital Ratio</u>	<u>Cost Factor</u>	<u>Weighted Cost</u>
Long-Term Debt	45.75%	9.23%	4.22%
Preferred Stock	6.25	6.97	0.44
Common Equity	<u>48.00</u>	13.00	<u>6.24</u>
TOTAL	100.00%		10.90%

Requested Capital Structure\*  
(Attrition Year 1990)

<u>Component</u>	<u>Capital Ratio</u>	<u>Cost Factor</u>	<u>Weighted Cost</u>
Long-Term Debt	44.25%	9.13%	4.04%
Preferred Stock	6.25	7.18	0.45
Common Equity	<u>49.50</u>	13.75	<u>6.81</u>
TOTAL	100.00%		11.30%

\*Late-filed Exhibit 40, A.89-05-023

Adopted Capital Structure  
(D.89-11-068)

<u>Component</u>	<u>Capital Ratio</u>	<u>Cost Factor</u>	<u>Weighted Cost</u>
Long-Term Debt	44.25%	9.08%	4.02%
Preferred Stock	6.25	7.18	0.45
Common Equity	<u>49.50</u>	12.90	<u>6.39</u>
TOTAL	100.00%		10.86%

San Diego Gas & Electric Company  
 Gas Department  
 1990 Attrition Allowance  
 Revenue Requirements  
 (\$000)

Description	Requested	Consolidated Request 1/	Adopted
<b>Operational Attrition:</b>			
Labor Inflation	\$1,431	\$1,431	\$1,431
Non-Labor Inflation	1,086	1,086	1,086
<b>Capital-Related Attrition</b>	<b>4,783</b>	<b>7,127</b>	<b>5,238</b>
ARA Mechanism for 1990	\$7,300	\$9,644	\$7,755
<b>Other Items:</b>			
RD&D Expense (CIEE Funding)	\$0	\$0	\$0
Intervenor Fees Paid	21	21	21
Conservation & Load Management Adj.	408	408	408
<b>Total 1990 ARA Base Rate Revenue Change</b>	<b>\$7,728</b>	<b>\$10,072</b>	<b>\$8,184</b>

Previously Authorized Base Rate Revenue	\$130,139
Add Attrition Increase for 1990	8,184
<b>Adopted Base Rate Revenue for 1990</b>	<b>\$138,323</b>

1/ Reflects SDG&E's requested cost of capital. See A.89-05-011 et al. and D.89-11-068