

## PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

COMMISSION ADVISORY  
AND COMPLIANCE DIVISION  
Advisory Branch

RESOLUTION G-2901  
December 18, 1989

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

RESOLUTION G-2901. SAN DIEGO GAS AND ELECTRIC COMPANY. STEAM DEPARTMENT. TO REVISE THE PRELIMINARY STATEMENT TO REFLECT AN INCREASE IN STEAM DEPARTMENT AUTHORIZED BASE RATE REVENUE WHICH WILL RESULT FROM 1990 OPERATIONAL AND FINANCIAL ATTRITION.

BY ADVICE LETTER 163-H, FILED ON SEPTEMBER 29, 1989.

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**SUMMARY**

1. This Resolution approves a January 1, 1990 increase of \$60,000 to San Diego Gas and Electric Company's (SDG&E) Steam Department authorized level of base rate revenues to compensate for operational and financial attrition. Of the total, \$63,000 is for operational attrition and (\$3,000) is for capital-related attrition.

**BACKGROUND**

1. In D. 88-12-085 (SDG&E's test year 1989 general rate case), the Commission authorized SDG&E to revise steam 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 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 163-H requesting a 1990 steam base rate revenue increase of \$60,000 to compensate for operational attrition. In calculating this request SDG&E assumed its current authorized cost of capital. The advice letter also notes that SDG&E's showing in the cost of capital proceeding (A.89-05-023) requests a \$2,000 steam 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.
3. CACD has verified that the resulting \$60,000 increase for operational and financial attrition complies with D. 88-12-085 and D. 89-11-068.

**FINDINGS**

1. For the reasons discussed above, a steam base rate revenue increase of \$60,000 effective January 1, 1990 is just and reasonable.

**THEREFORE, IT IS ORDERED that:**

1. San Diego Gas and Electric Company is authorized to increase its Steam Department Authorized Base Rate Revenue by \$60,000 effective January 1, 1990.
2. Advice Letter 163-H and accompanying tariff sheets shall all be marked to show that they were approved for filing by Resolution G-2901.
3. This Resolution is effective today.

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

G. MITCHELL WILK  
President  
FREDERICK R. DUDA  
STANLEY W. HULETT  
JOHN B. OGHANIAN  
PATRICIA M. ECKERT  
Commissioners

*Wesley Franklin*  
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Acting Executive Director

Attachment A

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  
 Steam Department  
 1990 Attrition Allowance  
 Revenue Requirements  
 (\$000)

Description	Requested	Adopted
<b>Operational Attrition:</b>		
Labor Inflation	\$35	\$35
Non-Labor Inflation	29	29
<b>Capital-Related Attrition</b>	<b>(3)</b>	<b>(3)</b>
ARA Mechanism for 1990	\$60	\$60
<b>Other Items:</b>		
RD&D Expense (CIEE Funding)	\$0	\$0
Intervenor Fees Paid	0	0
Other	0	0
<b>Total 1990 ARA Base Rate Revenue Change</b>	<b>\$60</b>	<b>\$60</b>
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Previously Authorized Base Rate Revenue		\$1,454
Add Attrition Increase for 1990		60
<b>Adopted Base Rate Revenue for 1990</b>		<b>\$1,514</b>
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