

## PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

COMMISSION ADVISORY  
AND COMPLIANCE DIVISION  
Energy Branch

RESOLUTION G-2974  
DECEMBER 18, 1991

R E S O L U T I O N

RESOLUTION G-2974. SOUTHERN CALIFORNIA GAS COMPANY.  
ORDER REVISING THE TARIFFS TO REFLECT AN INCREASE IN  
REVENUE REQUIREMENTS OF \$45,620,000 WHICH WILL RESULT  
FROM OPERATIONAL AND CAPITAL-RELATED ATTRITION FOR 1992.

BY ADVICE LETTER 2076-A, FILED ON DECEMBER 3, 1991.

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SUMMARY

1. On October 15, 1991, Southern California Gas (SoCalGas) filed Advice Letter 2076 requesting a 1992 base rate revenue increase of \$44,641,000 to offset operational and capital-related attrition. SoCalGas filed a supplementary Advice Letter 2076-A on December 3, 1991 revising its request to \$45,620,000 to incorporate additional adjustments. This Attrition Rate Adjustment (ARA) was filed pursuant to Ordering Paragraph 14 of Decision (D.)90-01-016.
2. This Resolution approves an increase of \$45,620,000 to SoCalGas's authorized Gas Margin to offset operational and capital-related attrition in 1992.

BACKGROUND

1. In D.90-01-016 (SoCalGas' Test Year 1990 General Rate Case), the Commission authorized SoCalGas to revise its base rates to offset 1992 operational and capital-related attrition.
2. Operational attrition is a decrease in a utility's net operating income due to an increase in operation and maintenance expenses related to inflation between general rate case test years.
3. Capital-related attrition is a change in a utility's net operating income because of rate base and cost of capital changes between general rate case test years.

4. In D.91-11-059 (the Cost of Capital proceeding), the Commission adopted the 1992 capital structure and cost of capital for SoCalGas as shown in Attachment A.
5. On October 15, 1991, SoCalGas filed Advice Letter 2076 requesting a 1992 base rate revenue increase of \$44,641,000 to offset operational and capital-related attrition. SoCalGas filed a supplementary Advice Letter 2076-A, on December 3, 1991, revising its request to \$45,620,000 incorporating adjustments to reflect the recorded utility wage formula and the increase in the 1992 Federal Insurance Contribution Act (FICA) base amount for which payroll taxes are to be calculated. The details of SoCalGas' request to increase 1992 base rate revenue are stated below. Attachment B shows a summary of the requested increases.
6. In Advice Letter 2076-A, SoCalGas requested increases of \$15,829,000 for labor inflation and \$56,000 for labor inflation related to Demand Side Management. It also requested decreases of \$6,279,000 for non-labor inflation, \$54,000 for non-labor inflation related to Research, Demonstration and Development, and \$159,000 for non-labor inflation related to Demand Side Management. SoCalGas' request amounts to a total increase for operational attrition items of \$9,393,000.
7. SoCalGas requested \$42,327,000 for capital-related attrition items. This request reflects the rates of return adopted for SoCalGas in D.91-11-059.
8. SoCalGas requested decreases of \$957,000 for Federal Tax on Prior Year California Corporation Franchise Tax (CCFT), \$3,267,000 on Research Demonstration and Development, \$5,137,000 on Demand Side Management and \$48,000 on Amortization of Contributions in Aid of Construction (CIAC) Revenue.
9. SoCalGas requested a \$388,000 increase for Phase II of the Management Audit, as ordered in Resolution G-2736 which granted recovery of recorded audit costs.
10. An increase of \$2,150,000 was requested for recovery of postage rate changes. Recovery of postal rate changes was authorized in D.85-12-076, Ordering Paragraph 1.b.
11. Resolution G-2965 authorized the recovery of \$580,000 of revenue shortfall caused by SoCalGas' error of omission in Advice Letter 1985-A.
12. Intervenor fees of \$19,000 and \$17,000 were ordered to be paid to Toward Utility Rate Normalization (TURN) in D.91-04-021 and D.91-06-005. The requested total amount of \$36,000 has been adjusted for the Uncollectibles and Franchise Fee Factor of 1.021076.
13. SoCalGas requested a \$154,000 increase due to an increase in the 1992 Federal Insurance Contribution Act (FICA) base amount to be used in the calculation of payroll taxes.

14. In its cover letter to Advice Letters 2076 and 2076-A, SoCalGas noted that Commission action was pending on the following applications: Application (A.) No. 91-06-032, related to the Natural Gas Vehicle (NGV) Program, A.88-12-047, related to the New Headquarters Facility, and A.91-06-030, related to Demand Side Management Shareholder Incentives. SoCalGas also noted that, upon Commission action on these proceedings, it would file a subsequent supplemental advice letter to incorporate any rate impacts arising from Commission decisions.

#### NOTICE

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

#### PROTESTS

1. One protest to Advice Letter 2076 was received on November 4, 1991 from San Diego Gas & Electric Company (SDG&E).

2. SDG&E objected to provisions in SoCalGas' Advice Letter which apply the Service Level 2 (SL-2) surcharge of 1.2 cents per therm (12 cents per decatherm) and the corresponding credit on firm transportation service provided to SDG&E by SoCalGas under the long term service agreement between the two companies. SDG&E requested that SoCalGas be required to remove the surcharge/credit from SoCalGas' tariff schedules applicable to SDG&E.

3. On November 22, 1991, SoCalGas responded to SDG&E's protest stating that the provision of the 1.2 cents per therm in its Rate Schedules is to cover the unlikely circumstance of volumes being delivered to SDG&E which are not covered by the existing long-term contract. Further, SoCalGas stated that it has not attempted to collect from SDG&E the 1.2 cent per therm surcharge since August 1, 1991, the inception date of the Procurement Program, and declares its intention not to do so.

#### DISCUSSION

1. The Commission Advisory and Compliance Division (CACD) reviewed Advice Letter 2076 and the supplementary Advice Letter 2076-A for compliance with Commission Decisions (D) 85-12-076 (Attrition Rate Adjustment) and D.90-01-016 (SoCalGas' Test Year 1990 General Rate Case), as well as other relevant Commission decisions and resolutions.

2. CACD notes that Advice Letter 2076 which requested a 1992 base rate revenue increase of \$44,641,000 to offset operational and capital-related attrition has been superseded by Advice Letter 2076-A which revises its request to \$45,620,000 to incorporate adjustments reflecting the recorded utility wage formula and the final utility wage base amount for which payroll taxes are to be calculated.

3. SoCalGas' requested an increase for operational attrition items of \$9,393,000 which consisted of the following:

- a. An increase of \$15,885,000 in labor inflation of which \$56,000 is related to Demand Side Management.
- b. A total decrease of \$6,492,000 in non-labor inflation of which \$54,000 is related to Research, Demonstration and Development, and \$159,000 which is related to Demand Side Management.

CACD has verified that these items were authorized in D.90-01-016 and that the dollar amounts accurately reflect updated inflation estimates. CACD recommends that SoCalGas' request be granted.

4. SoCalGas requested an increase of \$42,327,000 for capital-related attrition items. CACD has verified that this request reflects the rates of return adopted for SoCalGas in D.91-11-059 and recommends granting this request.

5. CACD has verified the following decreases to be correct and recommends the requests be granted:

- a. A decrease of \$957,000 for Federal Tax on Prior Year California Corporation Franchise Tax (CCFT);
- b. a decrease of \$3,267,000 for Research Demonstration and Development;
- c. a decrease of \$5,137,000 for Demand Side Management; and,
- d. a decrease of \$48,000 on Amortization of Contributions in Aid of Construction (CIAC) Revenue.

6. SoCalGas requested a \$388,000 increase for Phase II of the Management Audit as ordered in Resolution G-2736 which granted recovery of recorded audit costs. CACD has verified that the requested increase is appropriate and recommends it be granted.

7. CACD has verified that recovery of postal rate changes was authorized in D.85-12-076. CACD, therefore, recommends SoCalGas' request of \$2,150,000 for postal rate changes be granted.

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8. CACD reviewed Resolution G-2965 which authorized the recovery of \$580,000 of revenue shortfall caused by SoCalGas' error of omission in Advice Letter 1985-A. CACD believes SoCalGas' request to recover this amount is appropriate.
9. SoCalGas requested \$37,000 for recovery of intervenor fees. In D.91-04-021 and D.91-06-005, the Commission ordered SoCalGas to pay Toward Utility Rate Normalization (TURN) \$19,000 and \$17,000, respectively. The requested total amount of \$36,000 has been adjusted for the Franchise and Uncollectibles Fee Factor of 1.021076 and brings the total request to \$37,000. CACD recommends granting this request.
10. CACD has reviewed SoCalGas' request for an increase of \$154,000 and has verified that D.85-12-076 authorizes such recovery of payroll tax changes. CACD recommends approval of this request.
11. The Commission has decided the Demand Side Management (DSM) Shareholder Incentives proceeding in D.91-12-010, granting \$1.28 million in revenues and interest accrued from July 1, 1991 until reflected in rates. This amount should be adjusted for the Franchise and Uncollectibles Fee Factor and included in the 1992 attrition filing. CACD, therefore, recommends that SoCalGas revise its Preliminary Statement and tariff schedules for attrition year 1992 incorporating this authorized revenue for DSM Shareholder Incentives.
12. CACD notes that decisions on the Natural Gas Vehicle Program proceeding, A.91-06-032, and the New Headquarters Facility proceeding, A.88-12-047, are still pending and therefore, these amounts are not included in this attrition filing.
13. CACD recommends that SoCalGas compute attrition rate changes on the basis of the equal percent of margin changes method, using the allocation factors adopted from its most recent Biannual Cost Allocation Proceeding (BCAP), A.91-03-039.
14. CACD has reviewed SDG&E's protest to SoCalGas' Advice Letter 2076. SDG&E objects to provisions in the Advice Letter which apply the Service Level 2 (SL-2) surcharge of 1.2 cents per therm (12 cents per decatherm) and the corresponding credit on service provided to SDG&E by SoCalGas under the long-term service agreement between the two companies. This surcharge/credit appears on SoCalGas' Rate Schedules GT-80 and GN-80 pertaining to natural gas service to wholesale customers. These Schedules were included in the Advice Letter 2076 and supplemental Advice Letter 2076-A.
15. In its protest, SDG&E references two other occasions, whereby, it protested SoCalGas' inclusion of the 1.2 cents per therm surcharge. On July 25, 1991, SoCalGas filed a Petition for Modification of D.91-02-022, seeking clarification of whether wholesale customers who serve noncore customers electing

SL-2 service should be responsible for the 1.2 cent per therm surcharge applied to other noncore customers taking SL-2 service. SDG&E protested this Petition. In Advice Letter 2063, dated July 31, 1991, SoCalGas, again, included the surcharge and credit mechanism in its tariffs. SDG&E protested this Advice Letter.

16. SoCalGas submitted responses to both of SDG&E's protests stating it would not apply the 1.2 cent per therm surcharge to SDG&E. SoCalGas explained that the provision in SoCalGas' Rate Schedules addressing this matter is merely to cover the unlikely circumstance of volumes being delivered to SDG&E which are not covered by the existing long-term contract. SoCalGas stated that it has never sought to charge SDG&E the 1.2 cent per therm surcharge for all its service volumes and believes it has clearly communicated to SDG&E its intention not to do so.

17. CACD reviewed D.91-11-040, issued on November 20, 1991, which approved SoCalGas' Petition of D.91-02-022. In this decision, the Commission recognized, that the service SoCalGas provides to SDG&E is under contract, by the following statement, "Long Beach is the only SoCalGas customer affected by the issue raised in SoCalGas' petition because SoCalGas serves its only other wholesale customer, SDG&E, under a contract." (Finding of Fact #2.)

18. CACD notes that SoCalGas has again responded to SDG&E's argument presented in its protest to SoCalGas' Advice Letter 2076. In this response, SoCalGas reiterates its explanation of the 1.2 cent surcharge/credit provision in Rate Schedules GN-80 and GT-80. SoCalGas asserts that it has not attempted to collect from SDG&E the 1.2 cent per therm surcharge since the Procurement Program's inception on August 1, 1991, and declares once again its intention not to do so.

19. CACD believes SDG&E's concern to be valid, but also acknowledges SoCalGas' position as being reasonable.

20. The Commission's recognition, in D.91-11-040, of the long-term contract between the two companies for service provided by SoCalGas to SDG&E should alleviate SDG&E's concern that SoCalGas would violate the long-term contract and apply the 1.2 cent per therm surcharge and corresponding credit.

21. CACD recommends that SoCalGas' Rate Schedules should include the 1.2 cent per therm surcharge, on the condition that it include a footnote clarifying its intention to not apply the 1.2 cent per therm and the corresponding credit on service, unless the volumes delivered to SDG&E are not covered by the existing long-term contract.

FINDINGS

1. On October 15, 1991 SoCalGas filed Advice Letter 2076 requesting a 1992 base rate revenue increase of \$44,641,000 to offset operational and capital-related attrition. SoCalGas filed a supplementary Advice Letter 2076-A on December 3, 1991 revising its request to \$45,620,000 to incorporate adjustments reflecting the recorded utility wage formula and the final utility wage base for which payroll taxes, Federal Insurance Contribution Act (FICA), are to be calculated.
2. SoCalGas requested an increase to capital-related items of \$9,393,000. These items were authorized in D.90-01-016.
3. In Advice Letter 2076-A, SoCalGas requested \$42,327,000 for capital-related attrition items. This request reflects the rates of return adopted for SoCalGas in D.91-11-059.
4. SoCalGas' request for decreases of \$957,000 for Federal Tax on Prior Year California Corporation Franchise Tax (CCFT), \$3,267,000 on Research Demonstration and Development, \$5,137,000 on Demand Side Management and \$48,000 on Amortization of Contributions in Aid of Construction (CIAC) Revenue are correct.
5. SoCalGas requested a \$388,000 increase for Phase II of the Management Audit as ordered in Resolution G-2736 which granted recovery of recorded audit costs.
6. SoCalGas' requested \$2,150,000 for recovery of postal rate changes. Recovery of postal rate changes were authorized in D.85-12-076, Ordering Paragraph 1.b.
7. Resolution G-2965 authorized the recovery of \$580,000 of revenue shortfall caused by its error of omission in Advice Letter 1985-A.
8. Intervenor fees of \$19,000 and \$17,000 were ordered to be paid to Toward Utility Rate Normalization (TURN) in D.91-04-021 and D.91-06-005. The total amount of \$36,000 has been adjusted for the Uncollectibles and Franchise Fee Factor of 1.021076 bringing the requested total to \$37,000.
9. SoCalGas requested a \$154,000 increase due to an increase in the 1992 Federal Insurance Contribution Act (FICA) base amount. D.85-12-076 authorizes payroll tax changes.
10. The Commission has decided on the Demand Side Management (DSM) Shareholder Incentives proceeding in D.91-12-010, granting \$1.28 million in revenues and accrued interest from July 1, 1991 until December 31, 1991, whereupon, interest ceases to be accrued. This amount should be adjusted for the Franchise and Uncollectibles Fee Factor and included in the 1992 attrition filing. SoCalGas should revise its Preliminary Statement and tariff schedules for attrition year 1992 incorporating this authorized revenue for DSM Shareholder Incentives.

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11. Decisions on the Natural Gas Vehicle Program proceeding, A.91-06-032, and the New Headquarters Facility proceeding, A.88-12-047, are still pending and therefore, these amounts have not been included in this attrition filing.

12. SDG&E's protest presents its objection to provisions in SoCalGas' Advice Letter 2076 which apply the Service Level 2 (SL-2) surcharge of 1.2 cents per therm and the corresponding credit on service provided under the long-term service agreement between the two companies.

13. SoCalGas submitted its response to SDG&E's protest stating it would not apply the surcharge/credit to SDG&E and that the provision in SoCalGas' Rate Schedules addressing this matter is merely to cover the circumstance of volumes being delivered to SDG&E which are not covered by the existing long-term contract.

14. In D.91-11-040, the Commission recognized that the service SoCalGas provides to SDG&E is under contract.

15. The Commission's recognition, in D.91-11-040, of the long-term contract between the two companies for service provided by SoCalGas to SDG&E should alleviate SDG&E's concern on this matter.

16. SoCalGas' Rate Schedules should include the 1.2 cent per therm surcharge, on the condition that it include a footnote clarifying its intention to not apply the 1.2 cent per therm and the corresponding credit on service unless the volumes delivered to SDG&E are not covered by the existing long-term contract.

#### CONCLUSIONS

1. It is reasonable to accept SoCalGas' request for an increase of \$9,393,000 in operational attrition items.

2. SoCalGas' request for \$42,327,000 to offset for capital-related attrition items is reasonable.

3. SoCalGas' requested decreases of \$957,000 for Federal Tax on Prior Year CCFT, \$3,267,000 for Research Demonstration and Development, \$5,137,000 for Demand Side Management and, \$48,000 for Amortization of Contributions in Aid of Construction (CIAC) Revenue are reasonable.

4. It is reasonable to accept SoCalGas' requested increases of \$388,000 for fees related to Phase II of the Management Audit, \$2,150,000 due to postal rate changes, \$580,000 for recovery of revenue shortfall, \$37,000 for recovery of intervenor fees, and for \$154,000 due to payroll tax changes.

5. It is appropriate that SoCalGas compute attrition rate changes on the basis of the equal percent of margin changes



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method, using the allocation factors adopted from its most recent Biannual Cost Allocation Proceeding (BCAP), A.91-03-039.

6. The Commission has decided the Demand Side Management (DSM) Shareholder Incentives proceeding in D.91-12-010, granting \$1.28 million in revenues and accrued interest from July 1, 1991 until December 31, 1991. It is reasonable that SoCalGas include this amount and applicable taxes in its 1992 attrition filing and submit revised Preliminary Statement and tariff schedules incorporating this authorized revenue for DSM Shareholder Incentives.

7. SDG&E's protest of SoCalGas' Advice Letter which includes a provision for a 1.2 surcharge and corresponding credit on services rendered by SoCalGas to SDG&E is valid, but SoCalGas' explanation on this matter is reasonable.

8. The Commission's recognition, in D.91-11-040, of the long-term contract between the two companies for service provided by SoCalGas to SDG&E should alleviate SDG&E's concern on this matter.

9. SoCalGas' Rate Schedules should include the 1.2 cents per therm surcharge/credit on the condition that it include a footnote clarifying its intention to not apply the 1.2 cent per therm and the corresponding credit on service unless the volumes delivered to SDG&E are not covered by the existing long-term contract.

**THEREFORE, IT IS ORDERED that:**

1. Southern California Gas Company is authorized to increase its Base Rate Revenue by \$45,620,000, effective on January 1, 1992.

2. Southern California Gas Company is authorized to increase its gas rates effective no sooner than January 1, 1992, based on the equal percent of margin changes method.

3. Southern California Gas Company's Rate Schedules shall include the Service Level 2 surcharge and corresponding credit of 1.2 cents per therm for firm transportation service on the condition that it include a footnote to its schedules clarifying its intention to not apply the surcharge/credit unless the volumes being delivered to SDG&E are not covered by the existing long-term contract between the two companies. Southern California Gas Company shall submit revised tariff schedules, GN-80 and GT-80, within five business days of the effective date of this Resolution.

4. Southern California Gas Company shall submit a supplemental advice letter with revised Preliminary Statement and tariff schedules for attrition year 1992 incorporating the authorized revenue of \$1.28 million, interest accrued on this amount for

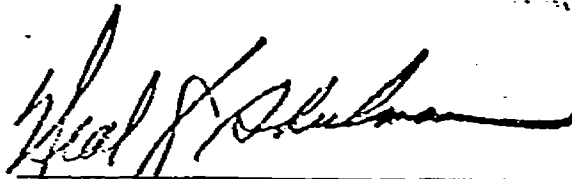
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the period beginning July 1, 1991 through December 31, 1991, and applicable taxes for DSM Shareholder Incentives, within five business days of the effective date of this Resolution.

5. Upon receipt of the supplemental advice letter filing as stated in Ordering Paragraphs 3 and 4 of this Resolution, Southern California Gas Company's Advice Letters 2076, 2076-A and attachments shall be marked to show that they have been superseded and supplemented by the new supplemental Advice Letter and the revised preliminary Statement and tariff schedules with an effective date of 1/01/92.

6. 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, 1991. The following Commissioners approved it:



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NEAL J. SHULMAN  
Executive Director

PATRICIA M. ECKERT  
President  
JOHN B. OHANIAN  
DANIEL Wm. FESSLER  
NORMAN D. SHUMWAY  
Commissioners

Attachment A

Southern California Gas Company  
Summary of Capital Structures  
for Attrition Year 1991

Authorized Capital Structure 1991  
(D.90-11-057)

<u>Component</u>	<u>Capital Ratio</u>	<u>Cost Factor</u>	<u>Weighted Cost</u>
Long-Term Debt	44.40%	9.58%	4.25%
Preferred Stock	9.80	5.99	0.59
Common Equity	45.80	13.00	5.95
Total	100.00%		10.79%

Requested Capital Structure 1992  
(D.91-11-059)

<u>Component</u>	<u>Capital Ratio</u>	<u>Cost Factor</u>	<u>Weighted Cost</u>
Long-Term Debt	43.80%	9.37%	4.10%
Preferred Stock	10.10	5.52	0.56
Common Equity	<u>46.10</u>	12.65	<u>5.83</u>
Total	100.00%		10.49%

Authorized Capital Structure 1992  
(D.91-11-059)

<u>Component</u>	<u>Capital Ratio</u>	<u>Cost Factor</u>	<u>Weighted Cost</u>
Long-Term Debt	43.80%	9.37%	4.10%
Preferred Stock	10.10	5.52	0.56
Common Equity	<u>46.10</u>	12.65	<u>5.83</u>
Total	100.00%		10.49%

Attachment B

Southern California Gas Company  
Summary of Revenue Requirements  
for Attrition Year 1992  
(\$000)

<u>Description</u>	<u>AL 2076 Requested</u>	<u>AL 2076-A Requested</u>	<u>Authorized</u>
<b>Operational Attrition</b>			
Labor Escalation	14,831	15,829	15,829
Labor Escalation (DSM)	52	56	56
Non-Labor Escalation	-6,279	-6,279	-6,279
Non-Labor Escalation (RD&D)	-54	-54	-54
Non-Labor Escalation (DSM)	-159	-159	-159
<b>Total Operational Attrition</b>	<b>8,391</b>	<b>9,393</b>	<b>9,393</b>
<b>Capital-Related Items</b>			
Book Depreciation	31,439	31,439	31,439
Ad Valorem Taxes	2,934	2,934	2,934
State Tax Depreciation	-2,329	-2,329	-2,329
Federal Tax Depreciation	-7,976	-7,976	-7,976
ITC Normalized	175	175	175
Interest Synchro.	-25	-25	-25
Debt Cost	3,725	3,725	3,725
Preferred Stock Cost	429	429	429
Common Equity Cost	13,955	13,955	13,955
<b>Total Capital-Related</b>	<b>42,327</b>	<b>42,327</b>	<b>42,327</b>
<b>Other Items</b>			
Federal Tax on Prior Year (CCFT)	-957	-957	-957
Management Audit Fees	388	388	388
Postage	2,150	2,150	2,150
Research, Demonstration and Development	-3,267	-3,267	-3,267
Demand Side Management	-5,137	-5,137	-5,137
Amortization of CIAC Revenue	-48	-48	-48
Revenue Shortfall	580	580	580
Intervenor Funding	37	37	37
Payroll Taxes	177	154	154
<b>Total Other Items</b>	<b>-6,077</b>	<b>-6,100</b>	<b>-6,100</b>
<b>Total 1992 ARA Gas Margin Change</b>	<b>44,641</b>	<b>45,620</b>	<b>45,620</b>
<b>Previously Authorized Gas margin for 1991</b>			<b>\$1,468,299</b>
<b>Add: Attrition Increase for 1992</b>			<b>45,620</b>
			<b>\$1,513,919</b>