

PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

EVALUATION AND COMPLIANCE DIVISION
Energy Branch

RESOLUTION E-3013
December 17, 1986

RESOLUTION

SAN DIEGO GAS AND ELECTRIC COMPANY (SDG&E), ELECTRIC DEPARTMENT. REQUEST FOR AUTHORIZATION TO INCREASE BASE RATE REVENUE TO COMPENSATE FOR OPERATIONAL AND FINANCIAL ATTRITION AND CERTAIN EXPENSE ADJUSTMENTS, RESULTING IN AN INCREASE OF \$19,770,976 IN BASE RATE REVENUES.

By Advice Letter 680-E, filed October 27, 1986, San Diego Gas and Electric Company (SDG&E) requested authorization to increase its Base Rate Revenue as set forth on Cal. P.U.C. Sheet Nos. 5767-E through 5768-E, inclusive. The filing was amended by Advice Letter 680-E Supplement filed December 3, 1986, in which SDG&E requests an Electric Department attrition increase of \$19,770,976. The facts are follows:

1. The purpose of this filing is to revise the Preliminary Statement to reflect an increase in the Electric Department Authorized Base Rate Revenue to offset 1987 financial and operational attrition and certain expense adjustments. This filing is being made pursuant to Decision 85-12-076 dated December 18, 1985 in Application A.84-12-015.
2. SDG&E requests that the increase in Base Rate Revenue become effective January 1, 1987 as contemplated by Decision 85-12-076, but requests no change in rates. This could result in an undercollection in SDG&E's ERAM account, depending on future adjustments for the Tax Reform Act of 1986 and other factors.
3. The ratemaking elements of SDG&E's requested increase are shown in Attachment A. SDG&E's adopted capital structure for Test Year 1986 and requested capital structure for Attrition Year 1987 are shown in Attachment B.
4. SDG&E requests an attrition increase relating to general operating and maintenance expense of \$5,018,700, exclusive of San Onofre Nuclear Generating Station (SONGS) refueling expenses. SDG&E should be authorized to increase such expenses by \$3,291,800, an amount calculated by an indexing formula approved by this Commission in Decision 85-12-076. The disallowed amount of \$1,726,900 has been requested by SDG&E for escalation of fixed wheeling costs, which are not includable in the indexing formula, and postage costs. The increased postage costs are due to

customer growth, not an increase in postage rates, and as such are are not allowable attrition expenses. This and other adjustments to SDG&E's request are shown in Attachment A.

5. SDG&E requests a net decrease of \$4,129,300 in expenses for refueling of SONGS plant units. This reflects the refueling of a single unit (SONGS 2) in 1987, compared to refueling of all three units in 1986.

6. SDG&E has used a five year average to estimate net plant additions in 1987.

7. SDG&E has included in this attrition filing an updated, embedded cost of debt and forecast of embedded cost of debt during 1987. The 1987 capital ratio is that adopted by Decision 85-12-108 in SDG&E's last General Rate Case, Application 84-12-015. The 1987 return on equity was adopted in Decision 85-12-076. The total weighted cost of capital is 11.61%.

8. Advice Letter 680-E Supplement correctly includes a net revenue reduction for interest synchronization.

9. SDG&E's request includes income taxes based on 1986 tax rates in effect. Consideration of the revenue requirement impacts of the Tax Reform Act of 1986 is deferred to Order Instituting Investigation (OII) 86-11-019, which orders that all revenues collected in 1987 are subject to refund pending outcome of that proceeding.

10. SDG&E's request includes \$1,143,600 to reverse a conservation-related refund previously ordered for 1986. The refund amount is now amortized, and the 1986 reduction is reversed, appearing as an increase for 1987.

11. SDG&E's request includes \$78,176 to recover two intervenor compensation awards to Utility Consumers' Action Network (UCAN). The recovery for one of the awards was authorized by Decision 86-06-055, in the amount of \$64,233 plus interest. The authorized Base Rate Revenue amount should be \$75,661, due to a correction in calculation of the interest. The SDG&E request would be correct if the amount were to be recovered at the end of 1987, but must be reduced by \$2,515 because recovery is amortized over the entire year.

12. SDG&E's filing includes \$12,621,100 in revenue requirements for Integrated Living Schedule (ILS) modifications, including seismic upgrades, at the SONGS 1 nuclear plant. The costs are included in line items for Rate Base and Financial (Rate of Return Changes) in Attachment A.

SDG&E included these revenues in this attrition filing due to uncertainty over the appropriate Commission proceeding in which to recover the costs. In Decision 85-12-024 the Commission ordered that, "Edison and San Diego Gas and Electric Company (respondents) may not reflect these expenditures in rates until the Commission issues a decision in Phase 2 of [Order Instituting Investigation 83-10-002 et al]." SDG&E should continue booking SONGS 1 ILS expenses in a memorandum account, and the \$12,621,100 should be excluded from the present attrition proceeding.

13. The Evaluation and Compliance Division has reviewed SDG&E's attrition request and associated workpapers, and recommends that an increase of \$5,420,461 in Base Rate Revenue be authorized. The total and its elements are shown in Attachment A.

14. Although SDG&E requests no increase in rates equal to the authorized increase in Base Rate Revenue, as a matter of policy it is preferable to match authorized revenues and rates wherever possible. Therefore, SDG&E should be authorized to increase Base Rate Revenues by \$5,420,461 on the effective date of a corresponding increase in base rates. The earliest such effective date authorized should be January 1, 1987, and the latest date should be the effective date of revised tariff schedules filed in compliance with a Commission order in SDG&E's pending ECAC/ERAM Application 86-07-008.

If SDG&E elects to defer the effective date of the attrition rate increase (e.g. to the effective date of the new ECAC/ERAM rates, or earlier), then the authorized increase in Base Rate Revenues should not accrue interest until rates are in place. In this instance SDG&E should not increase Base Rate Revenues, but should be authorized to record in a deferred debit account pro rata debits based on \$5,420,461 in annual revenues. These entries should be calculated in the same way that ERAM account entries are calculated, with the exception that during the interim period between January 1, 1987 and the effective date of the rate increase the deferred debit account should not accrue interest.

When the attrition-related rate increase does become effective, the balance in the deferred debit account should be transferred to SDG&E's ERAM account, and authorized Base Rate Revenues should be increased by \$5,420,461.

15. In Advice Letter 680-E SDG&E requests an attrition increase assuming that the Stipulation and Agreement approved in Decision 86-08-025 will become effective January 1, 1987. That decision adopted a return on equity of 13.9% for 1987. According to its terms, the stipulation does not become effective until the Commission order is final and no longer subject to appeal. However, the Federal Executive Agencies (FEA) have filed a petition for writ of review of Decision 86-08-025 with the California Supreme Court.

The Commission should now authorize an increase in SDG&E's Base Rate Revenues of \$5,420,461, which is based on the assumption that the stipulation in Decision 86-08-025 will become effective. Because that decision is not yet final, the Commission should also authorize SDG&E to file, at the utility's election, an advice letter establishing a memorandum account which should protect SDG&E's revenues in the event the stipulation approved in Decision 86-08-025 does not become effective. SDG&E could record in the memorandum account monthly debits based on the difference between the \$5,420,461 authorized herein and attrition revenues calculated as if the stipulation does not become effective. The memorandum account should accrue interest at the same rate as allowed in SDG&E's ERAM account.

If SDG&E chooses to request the memorandum account, it should provide supporting work papers showing revenue requirement calculations similar to those used to calculate the \$5,420,461 adopted herein.

16. The \$5,420,461 authorized by this Resolution should be subject to refund, plus interest, if the Stipulation and Agreement approved in Decision 86-08-025 does not become effective and if the Commission should in a final decision adopt a return on equity lower than 13.9%.

17. Public notice of these filings has been made by mailing copies of the advice letters to other utilities, government agencies and all interested parties who requested them. The Commission has received no protests in this matter.

THEREFORE:

1. San Diego Gas and Electric Company (SDG&E) is authorized to increase Electric Department Base Rate Revenues by \$5,420,461 to compensate for operational and financial attrition and certain expense adjustments, to become effective January 1, 1987, and to coincidentally file revised tariff schedules to increase base rates by \$5,420,461 in annual revenues, also effective January 1, 1987. Rate changes shall be calculated on a system average percent change basis.

2. If the attrition-related rate increase is not made effective January 1, 1987, then the deferred debit mechanism discussed in Paragraph 14 above shall be put into place. SDG&E shall file revised tariff schedules which include the \$5,420,461 in base rates to become effective no later than the effective date of rate revisions authorized by Commission decision in SDG&E's pending ECAC/ERAM Application 86-07-008.

3. SDG&E is authorized to file, at its election, an advice letter to record in a memorandum account monthly debits based on the pro rata difference between \$5,420,461 in annual revenues and attrition revenues calculated assuming the Stipulation and Agreement adopted in Decision 86-08-025 does not become effective. The memorandum account shall accrue interest at the same rate authorized for SDG&E's ERAM account.

4. Should the Commission, as a result of the Federal Executive Agencies petition to the California Supreme Court, thereafter issue an order providing for a 1987 return on equity lower than 13.9%, then the \$5,420,461 authorized in this Resolution is subject to refund, plus interest at the same rate as authorized for SDG&E's ERAM account.

5. The appropriate Commission proceeding in which SDG&E should pursue recovery of San Onofre Nuclear Generating Station Unit 1 Integrated Living Schedule expenses is Order Instituting Investigation 83-10-002. Those revenues are excluded from recovery in this attrition proceeding.

6. The tariff sheets filed shall be marked to show that they are authorized for filing by Commission Resoution E-3013. This Resolution is effective today.

I certify that this Resolution was adopted by the Public Utilities Commission at its regular meeting on December 17, 1986. The following Commissioners approved it:



Executive Director

DONALD VIAL
President
VICTOR CALVO
FREDERICK R. DUDA
STANLEY W. HULETT
Commissioners

SAN DIEGO GAS AND ELECTRIC COMPANY
1987 YEAR ATTRITION ALLOWANCE SUMMARY
ELECTRIC DEPARTMENT

	<u>Requested</u>	<u>Adopted</u>
Operating and Maintenance Expenses		
General	\$ 5,018,700	\$ 3,291,800
SONGS 1, 2 and 3 Stipulated Production Expenses	<u>(4,129,300)</u>	<u>(4,129,300)</u>
Subtotal	\$ 889,400	\$ (837,500)
Rate Base	38,665,000	38,665,000
Financial (Rate of Return Changes)	(17,588,000)	(17,588,000)
Interest Synchronization	<u>(3,417,200)</u>	<u>(3,417,200)</u>
Total Attrition	\$18,549,200	\$16,822,300
Conservation Refund Reversal	1,143,600	1,143,600
Reimbursement for SDG&E Payments to UCAN	<u>78,176</u>	<u>75,661</u>
TOTAL	\$19,770,976	\$18,041,561
SONGS 1 Revenue Requirement	--	(12,621,100)
REVISED TOTAL	--	\$ 5,420,461

SAN DIEGO GAS AND ELECTRIC COMPANY
ATTRITION YEAR 1987 CHANGES IN COST OF CAPITAL

	<u>Capital Ratio</u>	<u>Cost of Capital</u>	<u>Weighted Cost of Capital</u>
<u>Test Year 1986 (D.85-12-108)</u>			
Long-Term Debt	43.00%	10.01%	4.304%
Preferred Stock	9.00	9.64	0.868
Common Equity	<u>48.00</u>	15.00	<u>7.200</u>
Total	100.00%		12.372%
 <u>Attrition Year 1987</u>			
Long-Term Debt	42.00%	9.54%	4.007%
Preferred Stock	8.50	8.52	0.724
Common Equity	<u>49.50</u>	13.90	<u>6.881</u>
Total	100.00%		11.612%