

RETURN TO ENERGY BRANCH
ROOM 3102

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PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

COMMISSION ADVISORY
AND COMPLIANCE DIVISION
Energy Branch

RESOLUTION E-3062
December 17, 1987

R E S O L U T I O N
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RESOLUTION E-3062, SAN DIEGO GAS AND ELECTRIC COMPANY, ELECTRIC DEPARTMENT, REQUESTING AN INCREASE IN BASE RATE REVENUE TO OFFSET 1988 OPERATIONAL AND FINANCIAL ATTRITION AND CERTAIN EXPENSE ADJUSTMENTS EFFECTIVE JANUARY 1, 1988 CONCURRENT WITH OTHER PENDING RATE ADJUSTMENTS AND OTHER PREVIOUSLY AUTHORIZED RATE INCREASES; BY ADVICE LETTER 719-E, FILED OCTOBER 15, 1987.

SUMMARY

1. By Advice Letter No. 719-E, 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 increase its Base Rate Revenue by \$3,673,627 and concurrently revise its electric rates to reflect this increase. SDG&E requests this increase to compensate for 1988 operational and financial attrition, estimated reduction in 1988 taxes due to the Tax Reform Act of 1986 (TRA), 1988 plant additions for San Onofre Nuclear Generating Station (SONGS) Units 2 & 3, and intervenor compensation payments.
2. SDG&E's requested increase of \$3,673,627 is the net of (a) an increase of \$37,205,100 for conventional operational and financial attrition, (b) a decrease of \$42,564,500 for estimated reductions in 1988 taxes as a consequence of the TRA, (c) an increase of \$7,994,900 for operational and financial attrition for miscellaneous items, (d) an increase of \$1,092,400 for SONGS 2&3 1988 plant additions, (e) a decrease of \$78,176 to reverse the 1987 revenue requirement for previous intervenor payment, and (f) an increase of \$23,903 for 1987 intervenor payments.
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 \$16,565,373.

4. In addition to the above request, SDG&E also seeks an increase in total rates to recover \$31,171,100 in revenues associated with previously authorized SONGS 1 retrofit expenditures. This request is granted and is to be split between a \$10,611,000 increase in base rates and a \$20,560,100 increase in Electric Revenue Adjustment Mechanism (ERAM) amortization rates.

BACKGROUND

5. D.85-12-076 authorized SDG&E to revise electric base rates in its service territory to compensate for operational and financial attrition for 1988.

6. 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.

7. 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.

8. SDG&E's presently authorized capital structure and its requested capital structure for 1988 are shown in Attachment A to this Resolution.

9. SDG&E, in its October filing, requested an increase of \$3,237,427 for 1988. In response to inquiries from CACD, this was later revised to \$3,673,627.

10. SDG&E also requests an increase in rates of 0.282 cents/kilowatt-hour (c/kwh) to recover \$31,171,100 in revenues associated with previously authorized SONGS 1 pre-Integrated Living Schedule (ILS) retrofit expenditures.

11. SDG&E currently has requests pending before the Commission for significant rate reductions in its Energy Cost Adjustment Clause (ECAC) Application (A.)87-07-009 and Major Additions Adjustment Clause (MAAC) compliance filing for SONGS Units 2 & 3 in Application (A.)82-03-63, which total \$168 million in decreases. In the interest of rate stability, SDG&E has requested that any attrition increase be offset by decreases in its

ECAC and MAAC applications and that the net change be made effective January 1, 1988.

DISCUSSION

12. The CACD reviewed SDG&E's request and associated workpapers and found it necessary to categorize SDG&E's total request for \$3,673,627 as follows : (a) \$37,205,100 increase for conventional operational and financial attrition, (b) \$42,564,500 decrease for estimated reductions in 1988 taxes, and (c) \$7,994,900 increase for operational and financial attrition for miscellaneous items, (d) \$1,092,400 increase for SONGS 2&3 1988 plant additions, (e) \$78,176 decrease to reverse the 1987 revenue requirement for payments to intervenor Utility Consumer Action Network (UCAN), and (f) \$23,903 increase for 1987 payments to UCAN. These items are listed in Attachment B.

13. In accordance with D.87-12-068, the CACD recalculated the conventional attrition allowance at the lower return on equity adopted therein to be \$21,880,300. This is a decrease of \$15,324,800 from SDG&E's request. The adopted rate of return is shown in Attachment A.

14. 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 \$42,564,500 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 \$39,792,700 to reflect the lower return on equity adopted in D.87-12-068. is a change of \$2,771,800 from SDG&E's request.

15. SDG&E's request of \$7,994,900 for attrition allowance for miscellaneous items consists of (a) \$725,800 for differences between the CACD's and SDG&E's methodology, (b) \$4,586,400 for miscellaneous tax adjustments, (c) \$1,281,400 for additional nuclear operation and maintenance expenses, and (d) \$1,401,300 for the taxation of possessory interests by the State Board of Equalization starting 1988.

16. With respect to SDG&E's request for \$725,800 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 \$725,800 is denied.

17. SDG&E has requested \$4,586,400 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 \$4,586,400 is not due to a change in tax rates and is therefore denied.

18. SDG&E's request for \$1,281,400 for additional nuclear operation and maintenance expenses above the \$8,800,700 shown under "Operational Attrition" in Attachment B is also denied. D.87-12-066 in Southern California Edison Company's general rate case allows SDG&E to reflect its portion of SONGS operation and maintenance (O&M) expenses in future base rate changes at the level adopted in that decision. The decision authorizes only \$8,800,700. The request for additional expenses is denied.

19. SDG&E has requested \$1,401,300 for the taxation of possessory interests by the State Board of Equalization starting 1988. D.85-12-076 in A.82-12-48 et al authorizes SDG&E to recover revenue for ad valorem tax changes. SDG&E's request for \$1,401,300 is granted.

20. SDG&E's request for a \$1,092,400 increase for SONGS 2&3 1988 plant additions is made pursuant to ordering paragraph 8 of D.86-08-060. However, ordering paragraph 7d of that decision directs SDG&E to seek recovery of the same expenses in a compliance filing in A.82-02-40 et al. On October 1, 1987 SDG&E made that filing by motion in A.82-02-40 et al. The post-commercial operating date revenues are authorized in D.87-12-065 and are therefore denied herein.

21. SDG&E's request for a \$78,176 decrease is a reversal of the 1987 revenue requirement to recover payment of funds to intervenor UCAN as ordered in

D.86-06-055 and D.86-07-012. SDG&E's request is granted.

22. SDG&E's request for a \$23,903 increase relates to recovery of payments made to UCAN as directed in D.87-02-031. SDG&E's request is granted.

23. SDG&E's request for an increase in rates of 0.282 c/kwh to recover \$31,171,100 in revenues associated with SONGS 1 ILS expenditures is made pursuant to ordering paragraph 5 of D.87-08-023. This request is granted. The revenue amount includes \$10,611,000 in base rates and \$20,560,100 recoverable through ERAM account amortization. There is no separate rate of 0.282 c/kwh.

24. Per D.87-12-068 and the terms of this Resolution, SDG&E should decrease its electric Base Rate Revenue by \$16,565,373.

25. SDG&E should decrease base rates by \$5,954,373 and increase ERAM amortization rates by \$20,560,100. These figures differ from the change in Base Rate Revenue due to the authorized changes for SONGS 1 ILS revenues.

26. 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 ERAM account for the period from January 1, 1988 to the effective date of rates ordered by that decision.

27. 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. 719-E.

THEREFORE, IT IS ORDERED THAT :

1. San Diego Gas and Electric Company shall decrease its Electric Department Base Rate Revenue by \$16,565,373 effective January 1, 1988, as shown in Attachment B to this Resolution.
2. San Diego Gas and Electric Company shall decrease its Electric Department base rates by \$5,954,373 and increase its Electric Revenue Adjustment Mechanism rates by \$20,560,100 effective January 1, 1988.
3. Within seven (7) days of the effective date of this Resolution, San Diego Gas and Electric Company shall

file revised tariffs reflecting the combined effect of these and other revenue changes, revenue allocation and rate design criteria adopted in D.87-12-069 in its consolidated Energy Cost Adjustment Clause Application 87-07-009 and Large Light and Power Time-of-Use Meter Application 87-04-018.

4. The tariff sheets shall be marked to show that they were authorized for filing by Commission Resolution E-3062, and that the rates are 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
Electric Department
1988 Attrition Allowance

Current Authorized Capital Structure

(Attrition Year 1987)

<u>Component</u>	<u>Capital Ratio</u>	<u>Cost Factor</u>	<u>Weighted Cost</u>
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)

<u>Component</u>	<u>Capital Ratio</u>	<u>Cost Factor</u>	<u>Weighted Cost</u>
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)

<u>Component</u>	<u>Capital Ratio</u>	<u>Cost Factor</u>	<u>Weighted Cost</u>
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
Electric Department
1988 Attrition Allowance

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

Non-nuclear labor	\$4,454,500	\$4,454,500
Non-nuclear non-labor	3,414,100	3,414,100
Nuclear	8,800,700	8,800,700
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Total Operational Attrition	16,669,300	16,669,300
CAPITAL RELATED ITEMS		
(incl. Financial Attrition)		

Book Depreciation	16,477,600	16,477,600
Amortization	(5,053,600)	(5,053,600)
Ad Valorem Tax	2,075,200	2,075,200
State Tax Depreciation	(793,400)	(793,400)
Federal Tax Depreciation	(5,697,300)	(5,697,300)
ITC Normalized	1,011,500	1,011,500
Other Tax Adjustments	0	0
Interest Expense	0	0
Long Term Debt Costs	(770,500)	(770,500)
Preferred Stock Costs	(1,831,600)	(1,831,600)
Common Equity Costs	15,118,000	(206,900)
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Total Capital Related Items	20,535,800	5,211,000
TOTAL ATTRITION RATE ADJ.	37,205,100	21,880,300
TAX REFORM ACT OF 1986 (EST.)	(42,564,500)	(39,792,700)
OTHER MISCELLANEOUS ITEMS		

Differences in methodology	725,800	0
Miscellaneous tax adjustments	4,586,400	0
Additional nuclear O&M expenses	1,281,400	0
Possessory Interest	1,401,300	1,401,300
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Total miscellaneous items	7,994,900	1,401,300
Songs 2 & 3 plant additions	1,092,400	0
Reversal of 1987 revenue requirement for UCAN	(78,176)	(78,176)
Recovery of UCAN reimbursement	23,903	23,903
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ATTRITION SUBTOTAL	3,673,627	(16,565,373)
Songs 1 ILS - 1988 amount	10,611,000	10,611,000
BASE RATE TOTAL	14,284,627	(5,954,373)
Songs 1 ERAM amortization	20,560,100	20,560,100
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TOTAL	\$34,844,727	\$14,605,727