

PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

COMMISSION ADVISORY AND
COMPLIANCE DIVISION
Energy Branch

RESOLUTION E-3359
December 17, 1993

R E S O L U T I O N

RESOLUTION E-3359. SAN DIEGO GAS & ELECTRIC COMPANY REQUESTS APPROVAL OF ITS 1994 GAS AND ELECTRIC DEPARTMENT'S OPERATIONAL ATTRITION FILINGS AND SUBMITTAL OF DETAILED RESEARCH, DEVELOPMENT AND DEMONSTRATION (RD&D) PROGRAM INFORMATION AS ORDERED BY THE COMMISSION IN D.92-12-019.

BY ADVICE LETTER 891-G/891-E, FILED ON SEPTEMBER 29, 1993 AND SUPPLEMENTAL ADVICE LETTERS 891-G-A/891-E-A, FILED ON NOVEMBER 24, 1993 AND 891-G-B/891-E-B FILED ON DECEMBER 13, 1993.

SUMMARY

1. San Diego Gas & Electric (SDG&E) filed on September 29, 1993 Advice Letters 891-E/891-G requesting a change in rates to reflect the results of 1994 operational attrition. In addition to operational and rate base attrition, SDG&E also requested to change rates as allowed by its last General Rate Case (GRC) decision (D.92-12-019) and by the Commission's generic decision on attrition (D.85-12-076) to reflect changes in tax rates, nuclear refueling schedules, and the amortization of costs associated with various other utility programs and accounts.
2. The combined effect of the various components of SDG&E's attrition filing is a \$20,460,000 increase in electric rates and a \$6,274,000 increase in gas rates. These rate increases are largely offset by a reduction in SDG&E's rates brought about by the Commission's decision (D.93-12-022) on SDG&E's application for financial attrition (A.93-05-011). In D.93-12-022, the Commission reduced SDG&E's return on equity from 11.85% to 10.85% and adopted a rate of return of 9.03%. This resulted in a \$23,665,000 reduction in SDG&E's electric rates and a \$1,338,000 reduction in gas rates.
3. In Advice Letters 891-E-B and 891-G-B, SDG&E has revised its attrition filing to reflect the rate changes resulting from D.93-12-022.

4. Since SDG&E is a wholesale customer of Southern California Gas Company (SoCal Gas), SDG&E has included in its revised attrition filing estimates of rate changes to SDG&E that will result from SoCal Gas' GRC decision (A.92-11-017) and the interim decision in SoCal Gas's Biennial Cost Allocation Proceeding [BCAP] (A.93-09-006/A.93-09-048), both of which are expected to be adopted today by the Commission. SDG&E estimates that the SoCal Gas GRC decision will result in a \$3 million reduction to SDG&E's gas rates, while the interim BCAP decision will increase SDG&E's gas rates by \$13.5 million.

5. The net effect of all of SDG&E's proposed rate changes is a decrease in electric rates of \$6,047,000 for its electric operations and an increase of \$15,436,000 for its gas operations.

6. The Commission's Division of Ratepayer Advocates (DRA) initially protested SDG&E's determination of its operational and rate base attrition calculations but subsequently withdrew its protest and later filed comments on Research, Development, and Demonstration (RD&D) programs.

7. This Resolution approves SDG&E's operational and rate base attrition as filed by SDG&E with certain modifications. SDG&E is not allowed to transfer common expenses (including rate base attrition and depreciation) associated with its recently cancelled steam operations to its electric and gas ratepayers. SDG&E should also update its attrition filing to reflect actual, rather than forecasted, amounts for all applicable accounts.

8. As part of its 1994 attrition filing, SDG&E was also required to submit several reports on its RD&D program. DRA submitted comments on several RD&D issues. For almost all RD&D issues, the Resolution finds that SDG&E has complied with the reporting requirements contained in its last GRC decision. For a few issues, however, the Resolution finds that SDG&E needs to take further action.

9. The Resolution finds that SDG&E failed to file with the Commission a necessary advice letter to redirect its 1993 RD&D funds between various programs. The Resolution excuses SDG&E's non-compliance for 1993 provided that SDG&E include in its application requesting approval to shift program funds in 1994, which SDG&E has already agreed to file in Advice Letters 891-G-A/891-E-A, detailed budget information for each of SDG&E's 1994 RD&D programs.

BACKGROUND

1. SDG&E filed on September 29, 1993 Advice Letters 891-E/891-G requesting a change in rates to reflect the results of 1994 operational attrition. Attrition filings are designed to update the utility's revenue requirement to reflect changes in rate base and the effects of inflation on operating and maintenance (O&M) expenses. SDG&E is authorized to file for attrition adjustments under the authority of its last General Rate Case (GRC) decision (D.92-12-019). D.85-12-076 also allows SDG&E to request revenue requirement changes in its attrition filing associated with changes in tax rates and employment taxes.

2. In addition to operational attrition, SDG&E's last GRC decision also authorized SDG&E to change rates to reflect the amortization or undercollection of the costs of certain utility programs and accounts. SDG&E has included these costs into its attrition filing. These costs include such items as SDG&E's overcollection of Demand Side Management (DSM) Noncollaborative funds, SDG&E's 1992 DSM Reward payment, under- and/or overcollections associated with SDG&E's Electric and Gas Efficiency Balancing Accounts (EEBA and GEBA), and costs associated with DSM projects cancelled in 1989.

3. The flow-through and/or credit of certain cost items associated with SDG&E's ownership of 20% of the San Onofre Nuclear Generating Station (SONGS) are also allowed to be included in SDG&E's attrition filing.

4. SDG&E is requesting an increase in rates through its attrition filing of \$27,269,000 for its electric department (less a \$9,651,000 reduction due to there being no scheduled refueling of SONGS for this year) and an increase in rates of \$6,274,000 for its gas operations. These increase do not include rate changes resulting from SDG&E's application for financial attrition (filed in A.93-05-011) and adopted by the Commission in D.93-12-022).

5. In Advice Letters 891-G-B and 891-E-B, SDG&E revised its attrition filing to include the results of SDG&E's financial attrition as determined by the Commission in D.93-12-022. In D.93-12-022, the Commission reduced SDG&E's return on equity by 100 basis points and adopted a weighted cost of capital of 9.03%. This resulted in a \$23,665,000 reduction in SDG&E's electric rates and a \$1,338,000 reduction in gas rates.

6. Since SDG&E is a wholesale customer of SoCal Gas, SDG&E has included in its revised attrition filing estimates of rate changes to SDG&E that will result from SoCal Gas' GRC decision (A.92-11-017) and the interim decision in SoCal Gas's Biennial Cost Allocation Proceeding [BCAP] (A.93-09-006/A.93-09-048), both of which are expected to be adopted today by the Commission. Based on the Section 311 proposed decision in the SoCal Gas GRC, SDG&E estimates that its gas rates would be reduced by approximately \$3 million. SoCal Gas is also requesting Commission authority in its BCAP application to

amortize in rates an approximately \$121 million undercollection in several of its balancing accounts. SDG&E estimates its share of this undercollection at \$13.5 million based on SoCal Gas' application in this proceeding.¹

7. SDG&E estimates the combined effect of all rate changes applicable to SDG&E as a \$6,047,000 decrease in electric rates and a \$15,436,000 increase in gas rates.

8. As part of its 1994 attrition filing, SDG&E was also required to submit several reports on its RD&D program.

NOTICE

1. Advice Letters 891-G/891-E (without Attachments C, D, and E), 891-G-A/891-E-A, and 891-G-B/891-E-B were served on other utilities, government agencies, and to all interested parties who requested such notification, in accordance with the requirements of General Order 96-A, Section III-G. Parties were provided copies of attachments to Advice Letter 891-G/891-E upon request.

PROTESTS

1. On October 19, 1993, the Commission's Division of Ratepayer Advocates (DRA) protested Advice Letter 891-G/891-E which included a requested extension until October 25, 1993 in order to provide DRA additional time to respond to Attachment E of Advice Letter 891-G/891-E. On October 25, 1993, DRA withdrew its protest but filed comments on Attachment E of SDG&E's advice letter filing. In its comments, DRA reprimanded SDG&E for making two major changes to its 1993 program without seeking any pre-approval or guidance from the Commission as required under the Commission's fund shifting guidelines. DRA also commented on SDG&E's proposed 1994 RD&D plan.

2. SDG&E responded to DRA's comments on Attachment E on November 4, 1993.

1 SDG&E, in a protest to SoCal Gas' motion, argues that its share of the undercollection should be only \$8.6 million. The Commission is expected to issue a decision on this issue today.

DISCUSSION

OPERATIONAL AND FINANCIAL ATTRITION

1. SDG&E is requesting \$10,253,000 in operational attrition for its electric operations and \$2,813,000 for its gas operations. The labor and non-labor escalation rates used by SDG&E were derived using the methodology approved by the Commission in SDG&E's last GRC decision. The escalation rate for labor expenses of 3.355% was taken from Data Resources International (DRI's) July 1993 published data while the escalation rate for non-labor expenses of 4.384% was taken from DRI's Second Quarter 1993 Utility Cost Escalation Forecast. Labor and non-labor escalation rates associated with SDG&E's 20% ownership of SONGS were based on Southern California Edison's 1994 Attrition filing as Edison is the majority owner and plant operator of SONGS.²
2. SDG&E is also reducing its base rates by \$9.651 million to reflect that there will not be any costs associated with the refueling of SONGS II and III in 1994.
3. SDG&E is requesting rate base attrition of \$13,236,000 for its electric operations and \$4,112,000 for its gas operations³ based on its GRC decision.
4. Financial attrition related to SDG&E's cost-of-capital was not addressed by the Commission in SDG&E's Advice Letter filing but was addressed instead in A.93-05-011. In D.93-12-022 the Commission approved a cost-of-capital for SDG&E of 10.85% for 1994 and a rate-of-return of 9.03%. In Advice Letters 891-G-B and 891-E-B SDG&E has revised its attrition filing to include the results of D.93-12-022. The rate effects of D.93-12-022 result in a \$23,665,000 decrease in electric rates and a \$1,338,000 decrease in gas rates.
5. SDG&E has also revised its attrition filing to include the estimated impact of rate changes of the Southern California Gas Company (SoCal Gas) which will in turn affect SDG&E's rates as a wholesale customer of SoCal Gas. SDG&E should revise its compliance filing to today's resolution to reflect the final rate changes adopted by the Commission for SoCal Gas.

² See SDG&E 1994 Attrition Workpapers, Chapter 2.

³ These numbers include some interrelationships between the effect of income taxes and rate of return in calculating attrition increases.

Changes in Tax Rates

6. D.85-12-076 allows that:

SDG&E and the other utilities may include increases related to items [such as]...income tax rate or rule changes [or] payroll tax rate changes..in Attrition Rate Adjustment filings provided such rate changes are final as a matter of law. (D.85-12-076, 19 CPUC 2d 453, 476).

7. In its 1994 attrition filing, SDG&E is requesting rate recovery for an increase in the federal corporate income tax rate from 34% to 35% and an increase in the State Unemployment Insurance Rate from 0.2% to 1.2%. Although not technically a tax, SDG&E is also reflecting in its attrition filing a reduction in user fees paid to the Nuclear Regulatory Commission (NRC) of \$644,784.⁴ These fees are associated with SDG&E's ownership interest in SONGS I. With the closure of SONGS I, SDG&E will not incur these fees for 1994.

8. Approval of the rate recovery of federal corporate taxes in SDG&E's 1994 attrition filing does not prejudice the rate treatment of increased corporate taxes already incurred in 1993 and currently being tracked in a memorandum account established by the Commission in Resolution E-3361.

Steam Expenses

9. SDG&E ceased operation of its Steam Department in 1993. The revenue requirement for SDG&E's Steam Department included \$321,000 associated with the Steam Department's share of SDG&E's Customer Accounts and Administrative & General (A&G) expenses. With the end of SDG&E's steam operations, SDG&E is now requesting to reassign this \$321,000 to its electric and gas operations. SDG&E is also requesting recovery of rate base attrition and depreciation expenses associated with common plant expenses allocated to SDG&E's steam operations.

10. SDG&E's requests are inconsistent with the Commission's treatment of combined utilities. For ratemaking purposes, SDG&E's steam operations, and its gas and electric operations, have each been treated as separate utilities. SDG&E's share of A&G expenses assigned to its steam operations are supposed to be related to supporting only those operations and are to be

⁴ Includes 1% overhead payment to Edison as the operator of SONGS

recovered only through rates charged to steam customers.⁵

11. Absent specific authorization in a Commission decision to transfer these common steam costs to SDG&E's electric and gas operations, SDG&E's request should be denied without prejudice. SDG&E is free to request rate recovery of these expenses in its pending application (A.93-06-055) to address issues related to the closure of its steam operations.

REFUNDS AND AMORTIZATIONS OF OTHER ACCOUNTS

12. In addition to determining the level of operational and financial attrition utilities should receive, the Commission also utilizes the attrition process as a vehicle to pass through costs and/or savings associated with various utility programs and accounts. The following are programs and accounts for which SDG&E is requesting either a refund or recovery in rates. For each of these programs and accounts, SDG&E should update its filing to reflect actual, rather than forecasted, amounts and interest rates.

Demand Side Management (DSM) Noncollaborative Overcollection

13. In D.91-12-074, Appendix C (1992 Modified Attrition), the Commission directed SDG&E to refund to ratepayers any unspent DSM funds. With the exception of DSM Noncollaborative funds that were unspent in 1992, this was accomplished in SDG&E's 1993 GRC decision. In this attrition filing, SDG&E is now refunding the unspent 1992 funds with interest. SDG&E calculates the level of this refund at \$5,356,841 for electric customers and \$1,473,629 for gas customers excluding franchise fees and uncollectibles (FF&U). CACD does not take exception with this adjustment.

Electric Efficiency Balancing Account (EEBA) and Gas Efficiency Balancing Account (GEBA).

14. In SDG&E's last GRC, the Commission directed SDG&E to eliminate the EEBA and GEBA accounts and to "true up" any unamortized balances into a memorandum account for inclusion into SDG&E's 1994 attrition filing.⁶ SDG&E calculates the true-up amounts as an undercollection in EEBA of \$697,724 and an overcollection in GEBA of \$612,801 including interest. CACD does not take exception with this adjustment.

⁵ This rate treatment is identical to that adopted by the Commission in assigning PG&E's A&G expenses associated with the operation of the Diablo Canyon nuclear power plant as an essentially separate utility distinct from PG&E's other gas and electric operations (See D.88-12-083).

⁶ See D.92-12-019, Ordering Paragraphs #12 and #13 and SDG&E Advice Letter 869-E/846-G (filed January 29, 1993).

15. SDG&E's last GRC also required that SDG&E amortize in rates over its three-year GRC cycle the December 31, 1992 balance remaining in the EEBA and GEBA accounts. These accounts are undercollected by \$10,859,421 and \$6,295,788 respectively. SDG&E also requests that it receive interest on these unamortized balances consistent with the Commission's general treatment of closed-out balancing accounts. In Resolution E-3332 the Commission directed SDG&E to "eliminate the...DSM balancing accounts (EEBA and GEBA)...as of January 1, 1993. (Resolution E-3322, Ordering Paragraph #1). CACD does not take exception with this adjustment.

1994 SONGS PBOPS O&M

16. Recent changes in accounting rules now require that companies reflect the estimated costs of post-retirement benefits other than pensions (PBOPS) in their financial statements and that they set aside sufficient funds to cover these expected benefits. In its attrition filing, SDG&E is requesting rate recovery of \$1,871,000 from its electric ratepayers associated with SDG&E's share of SONGS PBOPS expenses. CACD does not take exception with this adjustment.

DSM 1989 Cancelled Projects Adjustment

17. D.93-03-059 authorized SDG&E to include in 1994 rates costs associated with cancelled DSM projects that occurred in 1989. These costs were previously disallowed by the Commission. SDG&E estimates the costs for these 1989 DSM projects as \$767,000 for electric ratepayers and \$192,000 for gas ratepayers. CACD does not take exception with this adjustment.

1992 DSM Reward Payment

18. At its last meeting, the Commission approved SDG&E's 1992 DSM reward (D.93-12-017) and authorized SDG&E to recover the award in its 1994 attrition filing. SDG&E revised its attrition filing in Advice Letters 891-G-B/891-E-B to reflect SDG&E's award of \$2,842,000 for its electric operations and \$252,000 for its gas operations. CACD does not take exception with this adjustment.

SDG&E's RESEARCH, DEVELOPMENT, AND DEMONSTRATION PROGRAMS

Compliance with D.92-12-019 regarding RD&D program
recommendations

19. In SDG&E's 1993 GRC proceeding, DRA recommended that SDG&E:
- o Limit its Clean Air Vehicle program to utility specific research programs until the Commission issues a generic position on utility research into low-emission vehicles (LEVs);
 - o Increase its level of end-use research within its existing budget by the redirection of established budget funds;
 - o Create a separate end-use research program;
 - o Account for energy efficiency research as part of DSM program costs;
 - o Increase utility research coordination;
 - o Increase its level of supply-side research in the Generation Efficiency Program; and,
 - o Better quantify ratepayer benefits from research projects.

20. In D.92-12-019, Ordering Paragraph 3.b, the Commission directed SDG&E to respond to each of these recommendations in its 1994 attrition filing. In Advice Letter 891-G-A/891-E-A, SDG&E addressed each of DRA's report recommendations. In some cases, SDG&E has not implemented, nor has it taken steps to implement, DRA's recommendations. CACD has assessed each of these instances and concludes that SDG&E has either provided adequate justification for not adopting DRA's recommendations or recommends that further action may be necessary. Each DRA report recommendation and the actions taken by SDG&E in response to the recommendation are discussed below.

Clean Air Vehicle Program

21. SDG&E addressed DRA's recommendation on this issue in its revised RD&D planning document that was submitted during the update phase of the 1993 GRC. Consistent with DRA's recommendation, SDG&E scaled back its planned funding of Natural Gas Vehicles by about \$1.4 million for 1993 through 1995. This left a planned budget of about \$1.7 million in the Clean Air Vehicle Program for 1993 through 1995.

End-Use Research

22. SDG&E accounts for end-use RD&D projects in its Transmission and Utilization Program. DRA recommended that SDG&E both increase its level of end-use research and create a separate program to improve the Commission's ability to track and review the level of end-use research.

23. SDG&E has complied with DRA's recommendation to increase end-use research. In its original 1993 GRC application, SDG&E had requested \$163,000 for end-use research. In SDG&E's revised plan submitted in the update phase of the proceeding, SDG&E had allocated \$370,000 to end-use research.

24. SDG&E did not accept DRA's recommendation to establish a separate program to track these expenditures. SDG&E believes that a separate end-use research program category can be created only by SDG&E filing a separate application to create such a program.

25. CACD agrees with SDG&E's conclusion that an application would be needed to create a separate end-use program but also notes that DRA expected this program to be created in the future (i.e. in the next research proceeding submitted before the Commission). SDG&E therefore should request the establishment of a separate⁷ end-use research program as part of its next GRC application.

Energy Efficiency Research Costs in DSM Program

26. Consistent with its recommendation in PG&E's 1993 GRC proceeding, DRA recommended that energy efficiency research should be accounted for as a cost of the utility's DSM programs. SDG&E responded that it is not appropriate to include energy efficiency research as part of its DSM program. SDG&E argues that RD&D programs include funding for emerging non-commercially available future technologies while DSM programs focus on the use of currently available commercial technology. SDG&E believes that incorporating research activities into the DSM area prior to demonstration and evaluation of their technical viability is not appropriate.

27. This issue was raised in the Commission's proceeding to establish rules and procedures governing utility DSM (R.91-08-003). In D.92-10-020, the Commission indicated that this issue, among others, should be addressed in the Commission's generic

⁷ SDG&E has proposed a performance-based ratemaking proposal that if adopted by the Commission could eliminate general rate cases. If this happens, SDG&E should address this and all other RD&D issues by a separate application.

RD&D rulemaking proceeding (R.87-10-013). Accordingly, no action needs to be taken in SDG&E's attrition filing.

Inter-utility Coordination

28. DRA recommended an increase in inter-utility research coordination. In D.92-12-019, the Commission specifically ordered SDG&E to respond to this issue in its next attrition filing. This will be discussed further in the Inter-utility Coordination section of this resolution.

Supply-Side Research

29. In SDG&E's revised GRC plan that was submitted during the update phase of the 1993 GRC, SDG&E increased its supply side research by adding the Advanced Gas Turbine Project to its Generation Efficiency Program. This is consistent with DRA's GRC report recommendations.

Quantification of Research Benefits

30. SDG&E acknowledges the need to quantify benefits of research expenditures to ratepayers. SDG&E states that in 1993, it established a 5-year goal for the RD&D department to contribute to a 1% reduction in operating costs as a means of quantifying RD&D benefits. SDG&E believes that meeting this goal will ultimately contribute to the stabilization of rates and can be identified as a ratepayer benefit.

31. In its 1993 GRC report, DRA stated:

DRA recognizes that for some projects in the 'research' stage, the utilities' prediction of potential benefits cannot be more than a description of what the benefits may be. However, for projects in the 'demonstration' stage it would be reasonable to require a quantification of potential benefits.

CACD believes that SDG&E's 5-year goal does not achieve DRA's recommendation to better quantify the benefits of research. In its next GRC application, SDG&E should better quantify ratepayer benefits from research projects.

Detailed Budget Information

32. In the update phase of SDG&E's 1993 GRC proceeding, SDG&E provided a revised RD&D plan in an attempt to modify its RD&D program to be consistent with DRA's GRC report recommendations. SDG&E's updated plan, however, provided cumulative rather than annual program funding level information for 1993 through 1995. Because the Commission needs to adopt annual funding levels for each program area in order to establish a benchmark for calculating future program area deviations, the Commission ordered SDG&E to provide its updated 1993 through 1995 RD&D Plan on an annual basis in its 1994 attrition filing.

33. In response to the Commission's directive, SDG&E provided the following detailed annual budget information in workpapers to Advice Letter 891-G/891-E:

Table 1
Updated GRC RD&D Program

	1993	1994 (in \$000)	1995	Total
Generation Efficiency	1,172	777	777	2,725
Transmission & Utilization	841	772	772	2,385
Environment	263	541	541	1,345
Clean Air Vehicles	498	589	589	1,675
Institutions/Coordination	4,363	4,459	4,459	13,280
Total	7,137	7,137	7,137	21,411

34. SDG&E's provision of this detailed budget information is in compliance with D.92-12-019.

35. Although this detailed information substantiates the cumulative 1993 through 1995 budget that was adopted by the Commission in D.92-12-019, SDG&E notified the Commission in Advice Letter 891-G/891-E that it has subsequently revised its annual RD&D program area budgets.

36. SDG&E submits that its new revised RD&D program plan for 1993 through 1995 is as follows:

Table 2
Revised RD&D Program Plan

	1993	1994 (in \$000)	1995	Total
Generation Efficiency	1,180	1,450	1,200	3,830
Transmission & Utilization	890	1,160	1,360	3,410
Environment	330	330	330	990
Clean Air Vehicles	295	0	0	295
Institutions/Coordination	4,442	4,197	4,247	12,886
Total	7,137	7,137	7,137	21,411

37. Pursuant to a settlement agreement that was approved by the Commission in D.91-10-046, SDG&E must comply with the following RD&D fund shifting policy:

- o SDG&E must submit an advice letter seeking prior Commission approval for any annual shifts between programs more than \$200,000 or 20% (whichever is greater); and,
- o If SDG&E wishes to change the funding level for any program by more than 50% or \$300,000 (whichever is greater), SDG&E must file an application seeking Commission approval.

CACD analyzed the following changes SDG&E made to its 1993 RD&D programs to determine whether an advice letter or application should have been filed.

Table 3
Comparison of 1993 Updated GRC to 1993 Revised Plan

RD&D Program	1993 (Updated GRC)	1993 (Revised)	Variance	%Var
	(in \$000)			
Generation Efficiency	1,172	1,180	8	1%
Transmission & Utilization	841	890	49	6%
Environment	263	330	67	25%
Clean Air Vehicles	498	295	(203)	-41%
Institutions/Coordination	4,363	4,442	79	2%
Total	7,137	7,137	0	0%

38. In its comments on Attachment E of Advice Letter 891-E/891-G, DRA points out that the expenditures for the Environment Program and the Clean Air Vehicles Program are greater than 20% of what was originally authorized by the Commission. Accordingly, DRA asserts that SDG&E should have requested pre-approval or guidance from the Commission before making these changes.

39. In response to DRA's comments, SDG&E correctly points out that Commission pre-approval was not required for the fund shift to the Environmental Program. Although the shift to the Environmental Program was 25%, the variance was only \$67,000 which is below the \$200,000 trigger.

40. In the case of the Clean Air Vehicles Program reduction, SDG&E states that it is only marginally above the trigger. SDG&E argues that a mere \$3,000 should not warrant Commission intervention or attention. Furthermore, SDG&E states that given the Commission's direction in the LEV investigation that the utilities should consolidate all LEV efforts, as well as DRA's previous recommendations to reduce LEV-related research, SDG&E elected to reduce LEV RD&D funding.

41. CACD does not believe that SDG&E's reasoning should exempt SDG&E from the Advice Letter filing requirement. It is not a "mere \$3,000" funding change but rather a \$203,000 funding change. SDG&E should have filed an advice letter requesting Commission pre-approval before shifting the funds out of this program for 1993.

42. From the data shown above, CACD calculated the variance for SDG&E's new revised 1994 RD&D plan as follows:

Table 4
Comparison of 1993 Updated GRC to 1994 Plan

RD&D Program	1993 (Updated GRC)	1994 (Plan) (in \$000)	Variance	%Var
Generation Efficiency	1,172	1,450	278	24%
Transmission & Utilization	841	1,160	319	38%
Environment	263	330	67	25%
Clean Air Vehicles	498	0	(498)	-100%
Institutions/Coordination	4,363	4,197	(166)	-4%
Total	7,137	7,137	0	0%

43. By Advice Letter 891-G-A/891-E-A, SDG&E has informed CACD that it will comply with fund shifting rules for 1994 by filing an application seeking Commission approval to shift the Clean Air Vehicle program funding that was authorized in its 1993 updated GRC budget to other program areas. Although SDG&E should have filed an advice letter for its revised 1993 Clean Air Vehicle program in accordance with Commission fund shifting rules, we will excuse SDG&E's non-compliance provided that SDG&E include in its application requesting approval to shift funds in 1994, revised detailed budget information for each of its planned 1994 RD&D programs. Such information will be useful to the Commission in ensuring that SDG&E comply with Commission rules for any future fund shifting it may undertake.

EPRI Expenditures

44. In a settlement among the parties to SDG&E's 1992 modified attrition proceeding approved by the Commission in D.91-12-046, the parties agreed to a forecast of \$3.5 million (in 1992 dollars) for EPRI membership dues.

45. In SDG&E's 1993 GRC proceeding, the Commission required in D.92-12-019, Ordering Paragraph 3(d) that SDG&E provide a report on its actual 1992 EPRI expenditures in its next attrition advice letter filing and refund to ratepayers any forecasted amounts that were not spent for that purpose.

46. In Advice Letter 891-G-A/891-E-A, SDG&E reported that in 1992, it paid \$3,521,469 in dues to EPRI. Therefore, SDG&E has no unspent 1992 EPRI dues to refund to ratepayers.

Royalties and Licensing Fees

47. In D.92-12-019, Ordering Paragraph 3(e) the Commission required that as part of its next attrition filing, SDG&E provide a report quantifying royalties and licensing fees stemming from RD&D results. SDG&E was required, pursuant to the last modified attrition proceeding settlement, to refund to ratepayers any such royalties and licensing fees attributable to RD&D.

48. In Advice Letter 891-G-A/891-E-A, SDG&E reported that in 1992, SDG&E received a total of \$6,219 in royalty and licensing fees revenues. SDG&E indicated that it has transferred these revenues into Account 456 - Other Electric Revenues. According to the Uniform System of Accounts (USOA), revenues for rights and/or benefits received from others that are realized through RD&D ventures are to be included in separate subaccounts under account 456. The account balances in the 456 subaccounts will be considered as part of miscellaneous revenues for future ratemaking purposes and have been included in this account as part of the 1994 operational attrition request. No further action is required by SDG&E to invoke a refund to ratepayers.

Inter-utility Coordination

49. In its March 1992 Biennial Report, CACD expressed concern over the perceived inadequate level of coordination between the various utilities' RD&D departments. DRA shared this concern in its 1993 GRC report and recommended that the coordination between the utilities be expanded.

50. In D.92-12-019, Ordering Paragraph 3(f) the Commission required that, as part of its next attrition filing, SDG&E report on its efforts to improve inter-utility RD&D coordination as recommended by DRA and CACD.

51. In Advice Letter 891-G-A/891-E-A, SDG&E reported on its coordination efforts. SDG&E stated that it continues to participate at all levels in the activities of the California Utility Research Council (CURC). CURC is a working group within California composed of the major electric and gas utilities which was formed to create a forum by which the utilities could coordinate their research.

52. Although SDG&E reported on its coordination efforts, it did not state how or if it has made any efforts to improve coordination. CACD recommends that SDG&E be required to demonstrate improvements in inter-utility RD&D coordination in its next GRC application.

FINDINGS

1. SDG&E's request for operational attrition of \$17,618,000 for its electric operations and \$6,274,000 for its gas operations should be approved subject to certain modifications.

2. The labor and non-labor escalation rates used by SDG&E were derived using the methodology approved by the Commission in SDG&E's last GRC decision.

3. SDG&E is reducing its base rates by \$9.651 million to reflect that there will not be any costs associated with the refueling of SONGS II and III in 1994.

4. Financial attrition related to SDG&E's cost-of-capital is included in SDG&E's Advice Letter filing. In D.93-12-022 the Commission approved a cost-of-capital for SDG&E of 10.85% for 1994.

5. SDG&E's revenue requirement will change in January due to SoCal Gas rate changes since SDG&E is a wholesale customer of SoCal Gas.

6. D.85-12-076 allows SDG&E to request revenue requirement changes associated with changes in tax rates and employment taxes.

7. The federal corporate income tax rate has increased from 34% to 35%. State Unemployment Insurance Rates have increased from 0.2% to 1.2%.

8. Approval of the rate recovery of federal corporate taxes in SDG&E's 1994 attrition filing does not prejudice the rate treatment of increased corporate taxes already incurred in 1993 and currently being tracked in a memorandum account established by the Commission in Resolution E-3361.

9. With the closure of SONGS I, SDG&E will no longer incur \$644,784 in costs associated with user fees paid to the Nuclear Regulatory Commission.

10. SDG&E reflected forecasted, rather than actual amounts, for various of its accounts in its attrition filing.

11. SDG&E ceased operation of its Steam Department in 1993. The revenue requirement for SDG&E's Steam Department included \$321,000 associated with the Steam Department's share of SDG&E's Customer Accounts and Administrative & General (A&G) expenses as well as rate base attrition and depreciation expenses associated with the Steam Department's share of common plant.

12. SDG&E is not allowed to transfer common expenses (including plant expenditures) associated with its recently cancelled steam operations to its electric and gas ratepayers in its attrition filing.

13. Resolution E-3322 directed SDG&E to close out its EEBA and GEBA balancing accounts.

14. SDG&E calculates the level of its refund for DSM Noncollaborative expenses at \$5,356,841 for electric customers and \$1,473,629 for gas customers excluding FF&U.

15. SDG&E calculates the true-up amounts for its EEBA and GEBA accounts as an undercollection in EEBA of \$697,724 and an overcollection in GEBA of \$612,801 including interest but excluding FF&U.

16. SDG&E's last GRC also required that SDG&E amortize in rates over its three-year GRC cycle the December 31, 1992 balance remaining in the EEBA and GEBA accounts. These accounts are undercollected by \$10,859,421 and \$6,295,788 respectively.

17. Recent changes in accounting rules now require that companies reflect the estimated costs of post-retirement benefits other than pensions (PBOPS) in their financial statements and that they set aside sufficient funds to cover these expected benefits. In its attrition filing, SDG&E is requesting rate recovery of \$1,871,000 from its electric ratepayers associated with SDG&E's share of SONGS PBOPS expenses.

18. SDG&E estimates the costs for 1989 cancelled DSM projects as \$767,000 for electric ratepayers and \$192,000 for gas ratepayers.

19. In compliance with D.92-12-019, SDG&E has reported on the steps it has taken to implement each of the recommendations included in DRA's 1993 GRC report. With noted exceptions, SDG&E has demonstrated that it has taken steps to implement DRA's 1993 GRC report recommendations.

20. SDG&E did not accept DRA's recommendation to establish a separate end-use research program. SDG&E should request the establishment of this program in its next GRC application.

21. The issue of including energy efficiency research expenses as part of SDG&E's DSM program is to be addressed in the Commission's generic RD&D Rulemaking proceeding (R.87-10-013).

22. SDG&E has not taken adequate steps to implement DRA's recommendation to better quantify ratepayer benefits from research. SDG&E is to better quantify the benefits of research expenditures to ratepayers in its next GRC application.

23. SDG&E's provision of the updated GRC RD&D program funding levels for the years 1993, 1994 and 1995 shown on Table 1 of this Resolution is in compliance with D.92-12-019.

24. SDG&E has shifted funds among authorized 1993 RD&D programs. Commission pre-approval was not required for the fund shift to the Environmental Program for 1993 but SDG&E did not file the required advice letter requesting Commission approval to shift funds from its Clean Air Vehicles Program in 1993.

25. In compliance with the fund shifting policy that was adopted for SDG&E in D.91-10-046, SDG&E should file an application for its 1994 planned Clean Air Vehicles Program fund shift using the specific 1993 program funding level specified in Table 1 of this Resolution as the benchmark.

26. SDG&E should include in its application to shift funds from its Clean Air Vehicles Program, detailed budget information for each of its planned 1994 RD&D programs.

27. In compliance with D.92-12-019, SDG&E reported on its actual 1993 EPRI dues and demonstrated that there was no refund to ratepayers required.

28. In compliance with D.92-12-019, SDG&E quantified royalties and licensing fees stemming from RD&D results and has refunded this amount to ratepayers.

29. SDG&E's efforts to improve inter-utility RD&D coordination have not been adequately demonstrated in this advice letter filing and SDG&E is required to demonstrate improvements in its next GRC application.

30. In D.93-12-017 the Commission approved SDG&E's 1992 DSM reward and authorized SDG&E to recover the award in its 1994 attrition filing.

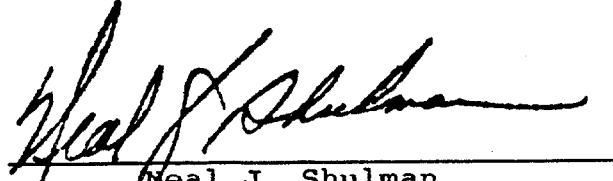
THEREFORE, IT IS ORDERED that:

1. The request of San Diego Gas & Electric Company (SDG&E) to change its rates and revenue requirements as requested in Advice Letters 891-E and 891-G is adopted by the Commission with certain modifications.
2. SDG&E shall not include in its electric and gas rates any costs associated with its steam operations.
3. SDG&E may collect in rates interest on its undercollected Electric and Gas Efficiency Balancing Accounts (EEBA and GEBA).
4. SDG&E shall update its attrition filing to reflect the use of actual, rather than forecasted, numbers where available.
5. SDG&E shall file by December 28, 1993 as a compliance filing to today's resolution a supplemental advice letter containing all rate and revenue requirement changes associated with Ordering Paragraphs #2 through #4 of this Resolution; changes in SDG&E's financial attrition adopted by the Commission in D.93-12-022; SDG&E's 1992 DSM award authorized by the Commission in D.93-12-017; rate changes associated with costs of the Southern California Gas Company (SoCal Gas) that are passed through in rates to SDG&E; and any other rate changes effective January 1, 1994.
6. SDG&E shall report on specified Findings related to Research, Development and Demonstration as required by this Resolution in its next General Rate Case application.
7. SDG&E shall file, in compliance with the fund shifting policy adopted by the Commission in D.91-10-046, an application for its 1994 planned Research Development and Demonstration program funding shifts. SDG&E shall include in this application detailed budget information for each of SDG&E's 1994 planned RD&D programs and shall use the specific 1993 program funding levels specified in Table 1 of this Resolution as the benchmark.

December 17, 1993

8. This Resolution is effective today.

I hereby certify that this Resolution was adopted by the Public Utilities Commission at its regular meeting on December 17, 1993. The following Commissioners approved it:



Neal J. Shulman
Executive Director

DANIEL Wm. FESSLER
President
PATRICIA M. ECKERT
NORMAN D. SHUMWAY
P. GREGORY CONLON
JESSIE J. KNIGHT, Jr.
Commissioners