PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

COMMISSION ADVISORY AND
COMPLIANCE DIVISION
Energy Branch

RESOLUTION E-3416*
Date July 19, 1995

R E S O L U T I O N

RESOLUTION E-3416. SAN DIEGO GAS & ELECTRIC COMPANY. REQUESTS APPROVAL OF ITS PERFORMANCE BASED RATEMAKING BASE RATE MECHANISM FINAL REPORT FOR 1994, WHICH DETAILS REVENUE SHARING CALCULATIONS AND PERFORMANCE REWARDS FOR THE SUBJECT YEAR.

BY ADVICE LETTER 947-E/966-G, FILED ON MAY 15, 1995.

SUMMARY

1. This Resolution accepts San Diego Gas & Electric Company's (SDG&E) Advice Letter (AL) 947-E/966-G which, pursuant to Decision (D.) 94-08-023, transmits the company's Performance Based Ratemaking (PBR) Base Rate Mechanism Final Report for 1994 (Base Rate Report) detailing its revenue sharing calculations and performance rewards for the subject year.

2. Under the revenue sharing provision in the Base Rate Mechanism, SDG&E's 1995 electric base rate revenues will be reduced by $938,093 and gas revenue requirements will be reduced by $178,684, totalling an aggregate revenue requirement reduction of $1,116,777.

3. Under the mechanism's performance incentive provisions, SDG&E is authorized to recover $6,200,000 for Electric Department performance and $800,000 for Gas Department performance, totalling an aggregate $7,000,000 performance reward for 1994 operations.

4. SDG&E states in the Base Rate Report that cost reductions were achieved without adverse impact on quality of service, in that, base rate revenue requirements were reduced, while two of its three quality of service benchmarks (customer satisfaction and safety) were exceeded. Further, the third quality of service benchmark (electric system reliability) was met and the price performance benchmark (retail electric rate comparison) was exceeded.

5. This Resolution also approves AL 947-E-A/966-G-A filed June 14, 1995, which requests a minor correction to SDG&E's Preliminary Statement and which reports, in compliance with D.95-04-069, the company's increase in 1994 Research,

Development & Demonstration (RD&D) funding under the Base Rate PBR Mechanism.

6. There were no protests to this Advice Letter.

BACKGROUND

1. SDG&E's PBR Base Rate Mechanism adjusts the utility's base rate revenue requirement pursuant to non-fuel expenses, capital investment and certain performance incentive calculations.

2. The Base Rate Mechanism became effective on September 1, 1994 and will remain in effect through 1998, or until superseded by SDG&E's next General Rate Case, subject to specified suspension provisions.

3. In compliance with D.94-08-023, AL 947-E/966-G transmits SDG&E's 1994 Base Rate Report illustrating calculations for 1994 shareholder and ratepayer revenue sharing and 1994 performance achievements.

NOTICE

1. Public notice of this advice letter was made by publication in the Commission calendar and by SDG&E mailing copies of the filing to interested parties, including other utilities, governmental agencies and the service list to Application 92-10-017.

PROTESTS

1. No protests were received on this Advice Letter.

DISCUSSION

Revenue Sharing

1. The Base Rate Mechanism adopted in D.94-08-023 was implemented in and for calendar year 1994. As set forth, 1994 revenue requirement was lower under the Base Rates Mechanism that which would have been applicable under the pre-existing attrition mechanism. SDG&E credits the PBR Base Rate Mechanism to have motivated it to further trim operating costs, such that a reduction to base rates beyond that authorized for 1994 is warranted.

2. The Base Rate PBR Mechanism includes a revenue sharing calculation that allocates SDG&E's recorded net operating income (NOI) between the utility's shareholders and ratepayers. Reported combined gas and electric rate of returns (ROR) occurring up to and including 100 basis points above authorized are allocated 100% shareholders/0% ratepayers; ROR greater than 100 but no greater than 150 basis points above authorized are

allocated 75% shareholders/25% ratepayers and ROR greater than 150 basis points above authorized are allocated 50% shareholders/50% ratepayers.

3. SDG&E achieved a 10.17% combined ROR adjusted to base rates, 114 basis points above its authorized ROR of 9.03%. SDG&E reports that its 1994 ratemaking ROR was above authorized primarily due to cost savings and non-ratemaking revenue enhancements.

4. Under SDG&E's current Electric and Gas Department Preliminary Statements, the ratepayer's portion of NOI subject to sharing will be reversed from the subject year revenue requirement in the subsequent year.

5. SDG&E calculates that the NOI subject to sharing is $4,008,531 of which the ratepayer portion is $1,116,777. The ratepayer's amount will be allocated between the gas and electric revenue requirement based on the allocation of 1993 total authorized base rate revenue (84% electric, 16% gas). Consequently, SDG&E's 1995 electric revenue requirements will be reduced by $938,093 and its 1995 gas revenue requirements will be reduced by $178,684.

6. The Commission Advisory and Compliance Division (CACD) has reviewed SDG&E's revenue sharing calculations and concur that they are reasonable. SDG&E is authorized to record the ratepayer revenue sharing portion, as discussed above.

Employee Safety

7. The non-price performance indicator for employee safety is based on the utility's performance in the frequency of lost-time accidents (LTA) reported to the Federal Occupational Safety and Health Administration (OSHA). Rewards or penalties received for employee safety performance are allocated 84% to the electric department and 16% to the gas department.

8. For 1994, the employee safety benchmark is set at 1.20. The rewards and penalties for this incentive are asymmetrical with the maximum reward at $3 million and the maximum penalty at $5 million. SDG&E reports that it experienced 42 lost-time accidents in 1994, resulting in an LTA OSHA frequency of 1.04 and a reward of $3 million.

9. SDG&E notes that the 42 lost-time accidents in 1994 were its lowest ever, due its having implemented several programs and activities aimed at improving employee safety.

10. The CACD has reviewed SDG&E's employee safety performance reward calculations and concur that they are reasonable. SDG&E is authorized to record recovery of its $3 million reward.

Customer Satisfaction

11. The non-price performance indicator for customer satisfaction is based on the utility's year-to-date performance

as reported in the Customer Service Monitoring System (CSMS) Results, (Fourth Quarter and Year-to-Date). Rewards or penalties received for customer satisfaction performance are allocated 84% to the electric department and 16% to the gas department.

12. CSMS is an internally-generated survey that SDG&E has conducted since the 1970s. It assesses customer satisfaction with seven service areas based on interviews with a sample of customers receiving the particular service over the subject year. For 1994, the customer satisfaction benchmark is set at 92.0%. The maximum reward or penalty for this incentive is $2 million.

13. SDG&E reports that its CSMS 95% "Very Satisfied" score for 1994 is the highest it's ever had. SDG&E's 1994 score exceeded the customer satisfaction benchmark, resulting in the $2 million maximum reward for this incentive for 1994.

14. To ensure that the CSMS Results remain an unbiased and valid measure of customer satisfaction, D.94-08-023 directed that the survey results be audited by a non-affiliated third party. Accordingly, attached to the Base Rates Report is an audit, completed by Armado Martinez & Company. The audit finds the 1994 CSMS results to be unbiased and valid.

15. The CACD has reviewed SDG&E's customer satisfaction performance reward calculations and concur that they are reasonable. SDG&E is authorized to record recovery of its $2 million reward.

System Reliability

16. The non-price performance indicator for system reliability is based on the utility's performance in the System Average Interruption Duration Index (SAIDI) as reported in the annual Electric Distribution System Performance Report. Rewards or penalties received for system reliability performance are allocated 100% to the electric department.

17. SAIDI measures the average electric service interruption duration per customer served per year, excluding major events. Primary outages that occur during the year are measured and recorded and used to calculate the SAIDI performance for the operating districts and the system. For 1994, the system reliability benchmark is set at 70 minutes.

18. SDG&E states that for the period 1987-1994, its SAIDI scores, excluding major events, averaged 76.5 minutes and only in 1989 was SDG&E's SAIDI score lower than that recorded in 1994. The utility reports a 70.1 minutes total system SAIDI score for 1994, resulting in no reward or penalty for the year.

19. The CACD has reviewed SDG&E's system reliability calculations and concur that they are reasonable. SDG&E will record neither a reward nor a penalty for the subject year.

National Rate Comparison

20. The only price performance indicator in the Base Rate Mechanism is the national rate comparison, which compares SDG&E's system average electric rate to a national index of investor-owned utilities' system average electric rates. The source of the National Rate Index is the Edison Electric Institute Statistical Yearbook, Advance Release. Rewards or penalties received for national rate comparison performance are allocated 100% to the electric department.

21. SDG&E reports a price performance indicator of 135.1% based on a 1994 system average rate of 9.69 cents per kilowatt-hour and a National Rate Index of 7.17 cents per kilowatt-hour.

22. For 1994, the PBR price performance benchmark is set at 137% with a deadband of plus or minus 1%. The maximum reward or penalty for this incentive is $10 million. The Base Rates report states SDG&E outperformed the price performance benchmark by 2%, resulting in a $2 million reward.

23. The CACD has reviewed SDG&E's national rate comparison performance reward calculations and concur that they are reasonable. SDG&E is authorized to record recovery of its $2 million reward.

Two-Way Conditionality

24. In order to ensure a reasonable balance between price and non-price performance, the PBR Base Rate Mechanism includes a two-way conditionality provision, whereby any rewards for SDG&E's price performance are conditional on SDG&E's aggregate non-price performance, and vice-versa.

25. This provision will reduce price performance rewards by any assessed penalty for non-price performance. Conversely, the total amount of a non-price reward would be reduced if SDG&E is assessed a penalty for price performance. If rewards are achieved for both price and the total non-price performance indicators, no conditionality adjustment is made. If penalties are received for both price and the total non-price performance indicators, no conditionality adjustment is made.

26. Since SDG&E achieved rewards for both price and non-price performance indicators in 1994 no conditionality adjustment is made.

27. The CACD has reviewed SDG&E's two-way conditionality calculations and concur that they are reasonable. SDG&E will record no conditionality adjustment for the subject year.

Correction to Gas Department Preliminary Statement

28. AL 947-E-A/966-G-A points out that SDG&E's Gas Department Preliminary Statement states that the gas portion of PBR performance indicator rewards or penalties should be recorded to the Electrical Revenue Adjustment Mechanism (ERAM). However, it

would be more appropriate for gas PBR rewards or penalties to be recorded to the Gas Fixed Cost Account (GFCA). In order to correctly implement the PBR Base Rate mechanism, SDG&E requests to make this minor change to its Gas Department Preliminary Statement. The request is granted.

<u>Research, Development and Demonstration (RD&D)</u>

29. Following its initial review of AL 947-E/966-G, the CACD reminded SDG&E that it had not included a discussion of additional RD&D funds (contrary to D.95-04-069). These funds result from application of the Base Rate PBR index. Subsequently, on June 14, 1995, SDG&E filed supplemental AL 947-E-A/966-G-A with Attachment "B" reporting its calculation for 1994 RD&D funding.

30. SDG&E submits that it was authorized $7,255,000, pursuant to Resolution E-3359 (1994 Operational Attrition) and that the PBR methodology, authorized in D.94-08-023, increased its RD&D funding by $68,000, creating a total 1994 RD&D budget of $7,324,000. SDG&E further submits that its 1994 RD&D expense level was $7,193,000. Pursuant to Ordering Paragraph No. 2 of D.95-04-069, on December 31, 1995, the RD&D one-way balancing account will be trued-up and any unspent funds will be returned to ratepayers.

31. The CACD has reviewed SDG&E's RD&D calculations and notes that SDG&E's increase in 1994 RD&D funding would be $71,000, which is $3,000 more than the $68,000 reported. Based on the documentation submitted with the supplemental advice letter, CACD calculates 1994 authorized RD&D revenues under traditional attrition methodology to be $7,254,000 and 1994 RD&D revenues authorized under the Base Rate PBR index methodology to be $7,325,000 ($7,325,000 minus $7,254,000 equals $71,000).

FINDINGS

1. SDG&E filed AL 947-E/966-G on May 15, 1995 requesting approval of its <u>PBR Base Rate Mechanism Final Performance Report for 1994</u>, which details the company's revenue sharing calculations and performance indicator rewards under the mechanism for the subject year.

2. It is reasonable for SDG&E's ratepayers to realize a $1,116,777 reduction in 1995 revenue requirements. In accordance with the revenue sharing provisions in the Base Rate PBR mechanism, electric revenue requirements will be reduced by $938,093 and gas revenue requirements will be reduced by $178,684.

3. It is reasonable for SDG&E to record performance indicator rewards totaling $7,000,000 of which $6,200,000 will be recorded for recovery through the ERAM balancing account and $800,000 will be recorded for recovery through the GFCA balancing account. SDG&E's 1994 performance rewards are as follows:

ELECTRIC DEPARTMENT			
Non-Price Performance			
Employee Safety	$2,520,000		
Customer Satisfaction	1,680,000		
System Reliability	0		
Subtotal		$ 4,200,000	
Price Performance		2,000,000	
Total Electric Department			$6,200,000
GAS DEPARTMENT			
Non-Price Rewards/(Penalties)			
Employee Safety		$ 480,000	
Customer Satisfaction		320,000	
Total Gas Department			800,000
Combined 1994 Performance Reward			**$7,000,000**

4. It is reasonable for SDG&E to correct an inadvertent mistake in its Gas Department Preliminary Statement, such that gas PBR rewards and penalties will be recorded to its Gas Fixed Cost Account (GFCA) and not to its Electrical Revenue Adjustment Mechanism (ERAM).

5. SDG&E's report of Research Development and Demonstration (RD&D) funding under the Base Rates Mechanism was transmitted as Appendix B of AL 947-E-A/966-G-A, filed June 14, 1995. It is reasonable for SDG&E to record its 1994 Research Development and Demonstration (RD&D) funding to have increased by $71,000 for a total of $7,325,000.

THEREFORE, IT IS ORDERED that:

1. San Diego Gas & Electric Company (SDG&E) is authorized to reduce its 1995 revenue requirements by $1,116,777 to reflect the ratepayer sharing of 1994 net operating income. Accordingly, electric revenue requirements will be reduced by $938,093 and gas revenue requirements will be reduced by $178,684.

2. SDG&E is authorized to recover $6,200,000 for its Electric Department 1994 performance achievements and $800,000 for its Gas Department 1994 performance achievements, totalling an aggregate $7,000,000 performance reward for 1994 operations.

3. SDG&E is ordered to increase its record of authorized 1994 RD&D funding by $3,000 for a total of $7,325,000.

4. This Resolution is effective today.

I hereby certify that this Resolution was adopted by the Public Utilities Commission at its regular meeting on July 19, 1995. The following Commissioners approved it:

Wesley Franklin

WESLEY M. FRANKLIN
Acting Executive Director

DANIEL Wm. FESSLER
President
P. GREGORY CONLON
JESSIE J. KNIGHT, JR.
HENRY M. DUQUE
Commissioners