

PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

ENERGY DIVISION

**RESOLUTION E-3509★
DECEMBER 3, 1997**

RESOLUTION

RESOLUTION E-3509. SAN DIEGO GAS AND ELECTRIC COMPANY (SDG&E) REQUESTS APPROVAL TO INCREASE ITS ELECTRIC DISTRIBUTION REVENUE REQUIREMENT TO REFLECT ITS 1997 PERFORMANCE-BASED RATEMAKING AUTHORIZED REVENUE REQUIREMENT INCREMENT. SDG&E'S ADVICE LETTER 1041-E IS CONDITIONALLY APPROVED WITH MODIFICATIONS.

SDG&E REQUESTS APPROVAL OF ITS 1998 ELECTRIC DISTRIBUTION AND GAS DEPARTMENT PERFORMANCE-BASED RATEMAKING AUTHORIZED REVENUE REQUIREMENT INCREMENTS. SDG&E'S ADVICE LETTER 1050-E/1070-G IS CONDITIONALLY APPROVED WITH MODIFICATIONS.

**BY ADVICE LETTER 1041-E, FILED ON AUGUST 14, 1997, AND
ADVICE LETTER 1050-E/1070-G, FILED ON OCTOBER 10, 1997.**

SUMMARY

1. By Advice Letter (AL) 1041-E, San Diego Gas and Electric Company (SDG&E) requests approval to increase its electric distribution revenue requirement adopted in Decision (D.) 97-08-056 by \$34,485,000 to reflect its adopted 1997 Performance-Based Ratemaking (PBR) revenue requirement increment.
2. By AL 1050-E/1070-G, SDG&E requests approval of its 1998 electric distribution and gas department PBR authorized revenue requirement increment of \$32,755,000 and \$6,705,117 in compliance with D.97-08-056 and D.94-08-023. SDG&E requests to update its electric distribution revenue requirement and gas margin for 1998 to reflect the PBR increments.
3. In AL 1041-E, SDG&E requested that its proposed 1997 electric distribution revenue requirement be approved effective September 23, 1997. In AL 1050-E/1070-G, SDG&E requested that the gas department tariff change to reflect the 1998 PBR authorized revenue requirement be effective January 1, 1998, and that the proposed 1998 electric distribution revenue requirement be approved effective January 1, 1998.
4. This resolution conditionally approves SDG&E's AL1041-E and AL 1050-E/1070-G with modifications as shown in Appendix A.

5. A protest on AL 1041-E by Office of Ratepayer Advocates (ORA) was received. ORA protested on the following issues: 1) SDG&E's calculation of its electric distribution revenue requirement by escalating the entire non-generation (transmission and distribution or T&D) revenue requirement using the PBR methodology, and then subtracting the non-distribution components; 2) SDG&E's assignment of the entire escalation increment to distribution; 3) the inclusion of \$21,137,000 of Electric Revenue Adjustment Mechanism (ERAM) balancing account dollars in the electric distribution revenue requirement for 1997; and 4) the possibility of updating the outdated 1996 sales forecast for 1998 to be used to calculate the 1998 distribution rates.
6. Two protests on AL 1050-E/1070-G by ORA and Utility Consumers' Action Network (UCAN) were received.
7. ORA protested AL 1050-E/1070-G for the inclusion of \$21,137,000 of the ERAM balancing account dollars in the electric distribution revenue requirement for 1998.
8. UCAN also protested AL1050-E/1070-G on three issues: 1) the escalation methodology used by SDG&E whereby SDG&E escalated the T&D PBR revenue requirement, then removed the proposed Federal Energy Regulatory Commission (FERC) transmission revenue requirement to arrive at the 1998 distribution revenue requirement, 2) the inclusion of customer growth amounts in the PBR methodology, and 3) the inclusion of the amounts related to the ERAM balancing account in the electric distribution revenue requirement.
9. ORA's and UCAN's protests are denied without prejudice. The issue of whether ERAM balancing account dollars are properly included in SDG&E's electric distribution revenue requirement should be dealt with in the unbundling proceeding (A.96-12-009, et al). ORA has filed a Petition to Modify D.97-08-056 in which it discusses this same issue.
10. Neither AL 1041-E nor 1050-E/1070-G discuss the sales amount to be used. We recognize that, as UCAN has argued, the PBR methodology provides for increasing the revenue requirement for increases in customer growth. Nevertheless, we will deal with the issue of which sales forecast should be used when we set the 1998 distribution rates in the unbundling proceeding (A.96-12-009, et al).
11. Finally, the Commission adopt a PBR escalation methodology in D.97-08-056 which escalates the SDG&E adopted non-generation revenue requirement to 1997 and 1998, and then subtracts out certain non-distribution components, primarily the SDG&E transmission revenue requirement which SDG&E proposed at FERC on March 31, 1997, based on the proposed FERC transmission cost of service.
12. No party protested the gas department PBR revenue requirement calculated in AL 1050-E/1070-G.

BACKGROUND

1. SDG&E's base rate PBR was adopted by the Commission in D.94-08-023. In that decision, the Commission required that SDG&E annually update its PBR base rate revenue requirement on October 15th, to be effective on the following January 1st.
2. The SDG&E base rate PBR adopted in D.94-08-023 is currently applicable to the bundled electric service (including generation, transmission, and distribution) and gas department base rate revenues.
3. In D.95-12-063, the Commission indicated that it was committed to replacing cost-of-service regulation for utility electric distribution services with distribution PBRs, and that SDG&E may use existing PBR dockets to request reforms to its PBR needed by 1998.
4. In D.96-10-074, the Commission ordered each electric utility to unbundle its last authorized rate base and revenue requirement into generation, transmission, and distribution consistent with the anticipated FERC order on transmission revenue requirements.
5. In D.96-12-088, the Commission stated, "(t)he distribution revenue requirement determined in the unbundling proceeding will be used to establish benchmarks in the distribution PBRs." [slip opinion, page 29]
6. In D.97-08-056 (the "unbundling decision"), the Commission adopted SDG&E's electric distribution revenue requirement which incorporate PBR escalation to 1996.
7. In Resolution E-3401, dated December 20, 1996, the Commission authorized SDG&E's 1997 PBR electric base rate revenue requirement increase of \$37,225,531. The authorized amount was reduced by \$2,558,000 in AL 1030-E/1049-G to reflect the lower state corporate income tax rate.
8. The Commission ordered in D.97-08-056 that SDG&E shall file an advice letter by October 15, 1997 to update its 1996 authorized electric distribution revenue requirement to reflect the adopted 1997 and proposed 1998 PBR escalation rates and other PBR-related adjustments.
9. SDG&E filed AL 1041-E on August 14, 1997, which showed the development of the electric distribution revenue requirement for 1997, including the 1997 PBR escalation amount, in compliance with D.97-08-056.
10. SDG&E filed AL 1050-E/1070-G on October 10, 1997 in compliance with D.97-08-056 and D.94-08-023. AL 1050-E/1070-G updates the electric distribution revenue requirement authorized in D.97-08-056 to 1998, and updates the gas PBR base margin for 1998 in compliance with D.94-08-023.

NOTICE

1. Public notice of ALs 1041-E and 1050-E/1070-G 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 (A.) 96-12-011 and A. 92-10-017.

PROTESTS

1. ORA filed a protest to AL 1041-E on September 3, 1997. ORA protested AL 1041-E for the reasons discussed below.

2. First, ORA argues that AL 1041-E is not in compliance with D.97-08-056 because SDG&E applied the PBR escalation methodology to the total non-generation revenue, and then subtracted the non-distribution components to arrive at the electric distribution revenue requirement.

3. Second, ORA asserts that, assuming that SDG&E's escalation methodology is appropriate, SDG&E inappropriately assigned the entire non-generation revenue requirement increment to distribution.

4. Third, ORA argues that there should be no ERAM balancing account dollars in the 1997 and 1998 electric distribution revenue requirement. ORA notes that an Memorandum of Understanding (MOU) signed between SDG&E and ORA would transfer the entire 12/31/96 ERAM balance to the Interim Transition Cost Balancing account (ITCBA).

5. Fourth, ORA argues that an updated sales forecast should be used to calculate the 1998 distribution rates.

6. ORA contends that SDG&E's methodology has led to an excessive revenue requirement increase, on the order of 6% to 7%, while inflation is currently at a much lower level.

7. SDG&E responded to ORA's protest on September 10, 1997. SDG&E contends that ORA's protest is without merit and should be ignored, and that ORA is attempting to re-litigate issues which were decided by D.97-08-056.

8. SDG&E asserts that its PBR escalation methodology is "entirely consistent" with the Commission's directives in D.97-08-056, and points to language which it says shows that D.97-08-056 ordered SDG&E to apply the PBR escalation methodology to the entire T&D revenue requirement.

9. Regarding the ERAM balancing account dollars, SDG&E stresses that it is not seeking to recover any new balancing account dollars, but "to segregate authorized revenue requirements underlying its frozen June 10, 1996 electric rates into functional components." SDG&E also notes that D.97-08-056 "specifically apportions \$21.1 million" to the authorized distribution revenue requirement. SDG&E fails to address the MOU signed between SDG&E and ORA.

10. Regarding the necessity for an updated sales forecast, SDG&E contends that ORA is again seeking to modify D.97-08-056 through an inappropriate means. SDG&E notes that D.97-08-056, Appendix C, Table II used the adopted ECAC sales to calculate unbundled rate components.

11. With regard to ORA's contention that the distribution revenue requirement change is excessive, SDG&E argues that the revenue requirement increase is result of applying the adopted PBR methodology adopted in D.94-08-023, "in strict accordance with the Unbundling Decision and the PBR Base Rates decision."

12. On October 10, 1997, the Commission shortened the normal 20-day protest period and 5 day reply period for AL 1050-E/1070-G to 15 days and 3 business days, respectively. The Commission did so in order to accommodate the various compliance filings needed to have rates approved by January 1, 1998.

13. ORA filed a timely protest to AL 1050-E/1070-G on October 27, 1997. ORA noted that the 1996 electric distribution revenue requirement adopted by the Commission in D.97-08-056 includes a \$21.7 million amount for the ERAM balancing account based on the 1996 forecast.

14. ORA states that "it is inappropriate to roll the recovery of the 1996 ERAM balance forward into the 1998 distribution revenue requirement."

15. ORA also notes that it has filed a petition to modify D.97-08-056. One of the requests made by ORA in that petition is to remove these ERAM balance amounts from the adopted electric distribution revenue requirement in the unbundling decision.

16. Finally, ORA notes that D.97-10-057 orders SDG&E's 1997 year end ERAM balances be transferred into ITCBA, and states that "this further supports the fact that there should not be any ERAM balances included in the 1998 distribution revenue requirement because the entirety of all prior outstanding ERAM balances through December 31, 1997 will have been allocated to the ITCBA."

17. UCAN also filed a timely protest on October 27, 1997. In addition to protesting the inclusion of ERAM balancing account dollars in the adopted distribution revenue requirement, UCAN protests the advice letter on two other points as well.

18. First, UCAN asserts that SDG&E's escalation methodology is not in compliance with D.97-08-056. UCAN asserts that it is improper for SDG&E to set distribution rates residually after transmission rates are set FERC. UCAN asserts that D.97-08-056, at pages. 15-16 expressly declined to allow SDG&E to do so.

19. Second, UCAN also asserts that "SDG&E is attempting to reflect an increased number of customers without also reflecting these customers' usage." UCAN asserts that, while "SDG&E appears to have followed the letter of the rules in estimating its rate increase", "...it has violated the intent of the rules by including customer growth in the revenue requirement while the rates arising from this revenue requirement are based on a frozen sales forecast." UCAN asserts that SDG&E has essentially ignored the "balance" adopted in D.94-08-023 whereby "customer growth would increase the revenue requirement but sales growth resulting from the addition of new customers would countervailingly reduce rates." UCAN's point essentially appears to be that if a 1996 adopted ECAC sales forecast is used to set the 1998 electric distribution rates, rather than an update of 1998 forecast, then SDG&E windfalls will result, not arising from productivity, as intended when the PBR was adopted, but instead arising from an increase in revenues due to the use of an outdated sales forecast.

20. Finally, UCAN also disputes the inclusion of amounts related to the ERAM balancing account in the adopted electric distribution revenue requirement.

21. SDG&E filed a reply to the ORA and UCAN protests of AL 1050-E/1070-G on November 3, 1997. SDG&E's response was filed within the normal period for replies to protests, i.e. 5 business days, but was not filed within the shortened time period for this advice letter ordered by the Commission on October 10, 1997. We are unaware of any harmful impact of SDG&E's untimely response in this case, so we will consider SDG&E's reply. However, all parties should be aware of required deadlines and file their responses in a timely manner, especially as the Commission's workload increase toward the end of the year.

22. In response to ORA, SDG&E asserts that ORA's protest is procedurally improper because ORA is attempting to change via a protest to an advice letter what was adopted in a Commission decision, D.97-08-056, ORA has not questioned SDG&E's compliance with that decision, and no stay has been ordered on D.97-08-056. SDG&E suggests that ORA's issue must be therefore addressed elsewhere. Nevertheless, SDG&E attached its preliminary response to ORA's Petition for Modification of D.97-08-056 to its reply.

23. Second, SDG&E asserts that ORA's protest is based on a "critical misconception", alleging that ORA has protested the escalation of the ERAM balancing account dollars included in the distribution revenue requirement adopted in D.97-08-056. SDG&E notes that it has not escalated the ERAM dollars in question.

24. Third, SDG&E asserts that ORA raises “irrelevant issues”, namely that SDG&E has “never presented ERAM balances for 1997 or 1998 in the Ratesetting/Unbundling proceeding.”

25. In response to UCAN, SDG&E also asserts that UCAN’s protest is improper in that UCAN does not allege noncompliance with D.97-08-056, but only “complains about the underlying escalation methodology adopted in D.94-08-023.”

26. Second, regarding the escalation of the T&D revenue requirement, SDG&E asserts that “UCAN makes factual allegations but fails to support them in any manner.” SDG&E says that “D.97-08-056 *ordered* SDG&E to update the distribution revenue requirement by the T&D escalation for 1997 and 1998” and that SDG&E developed its 1998 electric distribution revenue requirement in strict compliance with D.97-08-056.

27. Third, regarding changes in the number of customers, SDG&E says that it is in full compliance with D.97-08-056 in using the PBR escalation methodology despite UCAN’s complaints about the changes in the number of customers, and that UCAN’s complaints have no place in an advice letter protest.

28. Finally, SDG&E had already addressed the issue of the ERAM balancing account dollars in response to ORA.

DISCUSSION

1. In D.94-08-023, we adopted a base rate PBR mechanism for SDG&E, applicable to the bundled utility base rate Operating and Maintenance (O&M) expenses and capital related costs, for both the gas and electric departments.

2. The initial 1994 electric and gas PBR authorized revenue requirements were authorized when AL 924-E/932-G went into effect on its own motion, and since then we have annually approved 1995, 1996, and 1997 updates to the authorized PBR revenue requirements via resolutions.

3. In D.97-08-056, we adopted an electric distribution revenue requirement for SDG&E which was generally based on the application of SDG&E’s PBR escalation methodology to the unbundled non-generation authorized expenses and costs (derived from the 1993 Test Year GRC) and the subtraction of the transmission revenue requirement proposed by SDG&E before FERC on March 31, 1997, based on 1998 estimated cost of service for transmission, and other components including Public Purpose Program and nuclear decommissioning costs.

4. We noted in D.97-08-056 that the non-generation PBR revenue requirements shown in Appendix C, Table I, had been escalated only to 1996, and we ordered SDG&E to escalate its 1996 non-generation PBR authorized revenue requirements to 1997 and 1998

using its the same adopted PBR escalation methodology it had used to calculate the 1996 revenue requirement.

5. The Energy Division has reviewed the PBR methodology used to arrive at the 1996, 1997, and 1998 electric distribution revenue requirements in D. 97-08-056, AL 1041-E, and AL 1050-E/1070-G. The Energy Division believes that a consistent methodology has been used with one exception.

6. The Energy Division believes SDG&E improperly included the 1997 and 1998 PBR escalation to the adjustments assigned to generation made by D. 97-08-056 in its proposed non-generation (T&D) revenue requirements. The Energy Division has corrected this error and it results in a reduction of \$74,000 and \$17,000 to SDG&E's proposed 1997 and 1998 PBR electric distribution revenue requirements respectively.

7. It is apparent that \$21,137,000 of ERAM balancing account dollars have been included in the amount which we adopted for SDG&E electric distribution revenue requirements in D.97-08-056, shown on Appendix C, Table 1.

8. Although not specifically segregated by SDG&E in AL 1041-E or AL 1050-E/1070-G, it is also apparent that SDG&E has included these same ERAM dollars in its 1997 and 1998 electric distribution revenue requirement.

9. D.97-10-057 orders that SDG&E shall eliminate its ERAM effective January 1, 1998.

10. D.97-10-057 orders that "Balances remaining in the ECAC and ERAM accounts as of December 31, 1997 shall be transferred to the ITCBA and treated according to subsequent Commission orders." [slip opinion, Ordering Paragraph 2, page 25]

11. We clearly do not intend that any dollars included in ECAC or ERAM balancing accounts as of December 31, 1997 should be included in the electric distribution revenue requirement for SDG&E.

12. SDG&E and ORA have signed an MOU which provided that SDG&E would transfer the entire December 31, 1996 ERAM balance into the ITCBA.

13. The Energy Division obtained information from SDG&E which indicated that the utility had in fact transferred the December 31, 1996 ECAC and ERAM balances to the ITCBA.

14. We note ORA's and UCAN's arguments. However, the removal of the ERAM balance should be dealt in the unbundling proceeding in which the Commission will address ORA's Petition to Modify D. 97-08-056. If ORA's petition is granted, SDG&E authorized electric distribution revenue should be adjusted.

15. We note that UCAN had referred to this amount as \$24 million. However, Appendix C, Table I of D.97-08-056 shows that \$3,779,000, related to ERAM Balancing Revenue for Transmission, had been subtracted from the T&D ERAM Balancing Revenue of \$24,916,000.
16. UCAN argues that SDG&E has ignored the balance implicitly adopted in D.94-08-023 whereby it was assumed that customer growth would increase the revenue requirement, but sales growth would reduce rates.
17. The adopted PBR methodology includes various formulae for calculating authorized O&M expenses and capital additions. These formulae include a variable for customer growth. Increases in the number of electric and gas customers increase the authorized amounts for O&M expenses and capital additions, thereby increasing authorized revenue requirements.
18. No updated sales forecast has been adopted for SDG&E since we issued D.96-06-033, in SDG&E's 1995 ECAC proceeding. The forecast adopted in that proceeding was applicable to the forecast period May 1996 through April 1997. SDG&E's 1996 ECAC application is pending, and no 1997 ECAC application was filed. In D.97-10-057, we ordered the elimination of the ECAC mechanism effective January 1, 1998.
19. UCAN is correct that the SDG&E distribution rates will essentially be overstated if an outdated sales forecast is used to set the rates.
20. There is nothing in ALs 1041-E and 1050-E/1070-G which addresses the proper sales forecast to be used to set the distribution rates in 1998. We recognize that the purpose of both advice letters is not to set the distribution rates
21. The PBR methodology employed by SDG&E to arrive at its 1998 non-generation revenue requirement was the methodology adopted in D.97-08-056, and generally reflected the methodology adopted in D.94-08-023. This included the formulae employing customer growth as a variable.
22. We will take note of UCAN's argument here. However, we believe this issue should be addressed in the unbundling proceeding which will actually set the 1998 electric distribution rates.
23. UCAN asserts that SDG&E incorrectly applied the PBR methodology to its non-generation revenue requirement and then arrived at a distribution revenue requirement by subtracting the transmission revenue requirements proposed by SDG&E before FERC (the "residual" method).
24. SDG&E applied the same PBR escalation methodology which we approved in D.97-08-056, and the same methodology used to arrive at the non-generation revenue

requirements shown in Appendix C, and which we ordered SDG&E to apply to arrive at its 1997 and 1998 electric distribution revenue requirements.

25. UCAN refers to pages 15 and 16 of D.97-08-056 to support its argument.

26. On pages 15 and 16 of D.97-08-056, we did discuss the residual method, and there we rejected the utilities' proposals to set distribution rates residually based on the transmission revenue requirements which the FERC ultimately adopts. We recognized that SDG&E arrived at its distribution revenue requirement by subtracting the transmission revenue requirements proposed at FERC from the non-generation revenue requirements calculated using its PBR methodology, and we approved this method for arriving at SDG&E's distribution revenue requirement.

27. In its protest to AL 1041-E, ORA states that the entire revenue requirement increment calculated for 1997 is attributed to distribution, and this leads to an excessive increase in the distribution rates. This is due to the fact that the non-generation revenue requirement shown in Appendix C of D.97-08-056 had not been escalated to 1997 or 1998, while the transmission revenue requirement shown on that table was already in 1998 dollars.

28. For the reasons discussed above, we deny ORA's protests to AL 1041-E and 1050-E/1070-G. UCAN's protest to AL 1050-E/1070-G is denied without prejudice.

29. With the above caveats, SDG&E's ALs 1041-E and 1050-E/1070 should be approved with modifications as shown in Appendix A. SDG&E's 1997 PBR authorized electric distribution revenue requirement increment is \$34,411,000 and for 1998 is \$32,738,000.

30. SDG&E's 1997 and 1998 authorized PBR electric distribution revenue requirement increments reflect a reduction of \$74,000 and \$17,000 to the amount proposed in AL 1041-E and AL 1050-E/1070-G. The adjustments were made by the Energy Division to remove the 1997 and 1998 PBR escalation for the adjusted amount assigned to generation improperly included in SDG&E's proposed PBR increments.

31. The total authorized electric distribution revenue requirement for 1997 is \$535,129,000 and for 1998 is \$567,867,000. The development of the 1998 revenue is as follows:

1) Authorized Distribution Revenue in D.97-08-056 and D.97-12-010	\$500,718,000
2) 1997 PBR Escalation	34,411,000
3) 1998 PBR Escalation	<u>32,738,000</u>
4) Total Authorized Distribution Revenue Requirement (Line 1 + Line 2 + Line 3)	\$567,867,000

32. The total 1998 authorized gas department base margin is \$211,214,770. The development of the 1998 revenue is as follows:

1) Authorized Base Cost Amount	\$204,509,653
2) 1998 PBR escalation	<u>6,705,117</u>
3) Total Authorized Base Cost Amount (Line 1 + Line 2)	\$211,214,770

FINDINGS

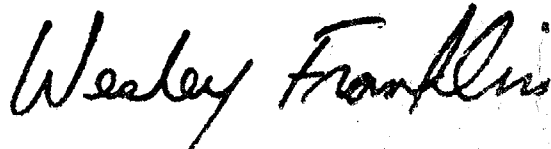
1. SDG&E filed Advice Letter 1041-E on August 14, 1997, requesting an increase of \$34,485,000 to its electric distribution revenue requirements adopted in D.97-08-056. The filing is in compliance with D.97-08-056 to reflect its adopted 1997 PBR electric base rate revenue requirement increment.
2. SDG&E filed Advice Letter 1050-E/1070-G on October 10, 1997, requesting an increase of \$32,755,000 to its 1997 electric distribution revenue requirements as proposed in AL 1041-E, and an increase of \$6,705,000 to its authorized gas margin. The filing is in compliance with D.97-08-056 and D.94-08-023, and updates the 1998 PBR electric distribution and Gas department revenue requirements.
3. ORA filed a protest to AL 1041-E on September 3, 1997. SDG&E submitted its response to ORA's protest on September 10, 1997. The protest and response were filed within the normal period for this advice letter filing.
4. ORA and UCAN filed a protest to AL 1050-E/1070-G on October 27, 1997. SDG&E filed its response to both protest on November 3, 1997. SDG&E's response was not filed within the shortened time period for this advice letter.
5. ORA's and UCAN's protests to AL 1041-E and 1050-E/1070-G on the issues of ERAM account balance and sales forecast should be denied without prejudice. Protests on the other issues should be denied.
6. SDG&E has used the PBR methodology consistently with the PBR and unbundling decisions with one exception. SDG&E improperly included the PBR escalation for the adjustments assigned to generation in the unbundling decision in its proposed 1997 and 1998 non-generation (T&D) revenue requirements.
7. SDG&E's has used the methodology for the development of the 1997 and 1998 electric distribution revenue requirements consistently with the "residual" method based on SDG&E's March 31, 1997 FERC proposed transmission revenues as adopted in D.97-08-056.

8. The issue of updating SDG&E's sales forecast should be addressed in the distribution rates setting proceeding (A.96-12-009, et al).
9. The issue of inclusion of the ERAM balance in SDG&E's distribution revenue requirement should be addressed in the unbundling proceeding (A.97-12-009, et al). If ORA's Petition to Modify D.97-08-056 on the same issue is granted, the 1997 and 1998 authorized PBR and total distribution revenue requirements should be adjusted.

THEREFORE, IT IS ORDERED THAT:

1. San Diego Gas and Electric Company is authorized to increase its electric distribution revenue requirement adopted in D.97-08-056 and D.97-12-010 by \$34,411,000 for 1997 and \$32,738,000 for 1998. The total authorized electric distribution revenue requirements set forth in Appendix A is adopted.
2. Protests of ORA and UCAN to AL 1041-E and 1050-E/1070-G on the issues of ERAM account balance and sales forecast are denied without prejudice. Protests on the other issues are denied.
3. San Diego Gas and Electric Company is authorized to increase its Gas Base Cost Amount by \$6,705,000.
4. The authorized revenues shall become effective January 1, 1998.

I hereby certify that this resolution was adopted by the Public Utilities Commission at its regular meeting on December 3, 1997. The following Commissioners approved it:



WESLEY FRANKLIN
Executive Director

P. Gregory Conlon, President
Jessie J. Knight, Jr.
Henry M. Duque
Josiah L. Neepser
Richard A. Bilas
Commissioners

APPENDIX A
1997 and 1998 PBR ADVICE LETTER 1041-E and 1050-E
San Diego Gas & Electric Company
Authorized Distribution Revenue Requirement
(thousands of dollars)

	6/10/96 Proposed Revenue	Unbundling Decision Adjustments	Unbundling Dec. Adopted Revenue	1997 T&D Escalation	Dist. Revs (incl. 1997 escalation)	1998 T&D Escalation	1/1/98 Authorized Revenue
1 T&D Revenue Requirements		(D.97-08-056)	(D.97-08-056)				
2		(D.97-12-010)	(D.97-12-010)				
3 O&M							
4 Production	3,575	(3,575)	0	0	0	(0)	-
5 Transmission	11,820		11,820	165	11,985	215	12,201
6 Distribution	45,094		45,094	601	45,696	812	46,508
7 Customer Accounts	32,507		32,507	395	32,902	575	33,477
8 Uncollectibles	2,721	(907)	1,814	-	1,814	26	1,840
9 Customer Service and Info	47,628	(983)	46,645	117	46,762	695	47,457
10 Administrative and General	78,681	(6,865)	71,816	372	72,188	1,125	73,314
11 Franchise Fees	19,161	(6,387)	12,774	-	12,774	181	12,955
12 Subtotal O&M	241,188	(18,717)	222,471	1,651	224,122	3,631	227,753
13 Depreciation	148,801		148,801	9,239	158,040	10,095	168,136
14 Taxes							
15 Property Taxes	26,517		26,517	1,990	28,507	1,909	30,416
16 Payroll/Misc. Taxes	4,538		4,538	-	4,538	-	4,538
17 Federal Income Tax	84,284		84,284	5,095	89,379	7,729	97,108
18 State Income Tax	22,658		22,658	(691)	21,967	3,291	25,258
Subtotal Taxes	137,997		137,997	6,394	144,391	12,929	157,320
20 Net Operating Income	171,842		171,842	10,963	182,805	8,921	191,726
21 Rate Base	1,833,961		1,833,961	121,171	1,955,132	95,411	2,050,543
22 Rate of Return	9.37%		9.37%	-0.02%	9.35%	0.00%	9.35%
23 Total Operating Revenue	699,829	(18,717)	681,112	28,247	709,358	35,576	744,935
24 Miscellaneous	(15,057)		(15,057)	-	(15,057)	-	(15,057)
25 DSM Rewards	7,871		7,871	4,805	12,676	(2,839)	9,837
26 Other Items	(1,360)	-	(1,360)	1,360	-	-	-
27 Base Rate Revenue	691,283	(18,717)	672,566	34,411	706,977	32,737	739,715
28 MAM Account	14,258	(8,100)	6,158	-	6,158	-	6,158
29 Transmission Wheeling	12,100	(4,181)	7,919	-	7,919	-	7,919
30 T&D Revenue Requirements	717,641	(30,998)	686,643	34,411	721,054	32,738	753,792
31 Adjustments for Transmission, 32 Public Benefit Programs, Other, 33 Nuclear Decommissioning			(185,925)	-	(185,925)	-	(185,925)
34 TOTAL AUTHORIZED DISTRIBUTION REV. REQ. (effective 1/1/98)			\$500,718	\$34,411	\$535,129	\$32,738	\$567,867

(END OF APPENDIX A)