PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

ENERGY DIVISION

RESOLUTION E-3638
NOVEMBER 4, 1999

# RESOLUTION

**Resolution E-3638. San Diego Gas & Electric Company (SDG&E) requests approval of its Performance-Based Ratemaking Base Rate Final Report for 1998, which details revenue sharing calculations and performance rewards and penalties for 1998. SDG&E's Advice Letter 1166-E/1148-G is approved with an effective date of today.**

**By Advice Letter 1166-E/1148-G filed May 14, 1999.**

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## SUMMARY

This resolution approves the PBR rewards and penalties reported in San Diego Gas & Electric Company (SDG&E) Advice Letter (AL) 1166-E/1148-G. This AL transmits SDG&E's Performance-Based Ratemaking (PBR) Base Rate Mechanism Final Performance Report for 1998 (Base Rate Report) in compliance with Decision (D.) 94-08-023. The Base Rate Report provides SDG&E's summary of 1998 performance under its base rate PBR mechanism, including SDG&E's revenue sharing calculations and information about SDG&E's rewards and penalties pursuant to the mechanism's safety, electric reliability, and customer satisfaction components.

SDG&E calculated a 1998 rate of return (ROR) subject to sharing of 8.20%. This ROR is 70 basis points below the authorized ROR. Under SDG&E's PBR, ratepayers will not share any of the loss associated with performance below the authorized ROR.

In AL 1166-E/1148-G, SDG&E reported that a shareholder reward results from its safety and customer satisfaction performance and that a shareholder penalty results from its electric reliability performance. SDG&E's 1998 performance results in no net performance reward or penalty. However, a net shareholder penalty is allocated to electric ratepayers, while a net shareholder reward is allocated to gas ratepayers.

The following performance rewards/(penalties) are approved:

**ELECTRIC DEPARTMENT**

| | |
|---|---|
| Performance Rewards/(Penalties) | |
| Employee Safety | $2,190,000 |
| Customer Satisfaction | $ 730,000 |
| System Reliability | ($4,000,000) |
| Total Electric Department | ($1,080,000) |

**GAS DEPARTMENT**

| | |
|---|---|
| Performance Rewards/(Penalties) | |
| Employee Safety | $810,000 |
| Customer Satisfaction | $270,000 |
| Total Gas Department | $1,080,000 |

The gas department allocation of the reward will be recorded in the gas Reward and Penalty Balancing Account (RPBA).[1] The electric department allocation of the penalty will be recorded in the electric RPBA.

No protests were received.

This Resolution also adopts a decrease in the authorized 1998 Research, Development, and Demonstration (RD&D) funding of $2,496,000 from the 1997 allocation. The decrease is largely related to the requirements of D.97-02-014.

## BACKGROUND

SDG&E's base rate PBR was adopted by the Commission in D.94-08-023. This PBR establishes the method by which the Company's authorized base rate revenue requirements, i.e. those costs related to operation and maintenance expenses, general and administrative expenses, capital-related costs (e.g., return on rate base, depreciation, and property tax), and other nonfuel costs, are calculated. It also sets forth performance standards related to SDG&E's quality of service (customer satisfaction, electric reliability, and safety), with associated financial rewards and penalties in the event those standards are exceeded or not met by the utility.

[1] Gas rewards and penalties under the SDG&E PBR have typically been recorded in the Gas Fixed Cost Account (GFCA) in the past. In D.99-05-030, the Commission ordered the elimination of the SDG&E GFCA when the balance in the account was expected to approach zero. SDG&E filed its advice letter eliminating the GFCA on September 22, 1999. With SDG&E AL 1170-E-A/1152-G-A, SDG&E created a gas RPBA. AL 1170-E-A/1152-G-A was effective January 1, 1999. An electric RPBA was established in Resolution E-3588.

SDG&E's base rate PBR formerly included an electric price performance component, but in D.97-09-052 the Commission suspended the electric price comparison component of the PBR, effective January 1, 1997, while leaving the other components of the PBR in effect.

The base rate PBR under which SDG&E operated in 1998 became effective on September 1, 1994. It was in effect through 1998. The Commission adopted a new PBR for SDG&E, effective January 1, 1999 in D.99-05-030.

D.94-08-023 required SDG&E to file an annual report which provides a summary of the prior calendar year PBR performance on May 15th of each year. AL 1166-E/1148-G was filed on May 14, 1999 to detail the results of SDG&E performance under the base rate PBR for 1998. Previous annual performance reports have been submitted by SDG&E in 1995 through 1998 for the years 1994 through 1997, respectively. The first two of those reports were initially approved by the Commission without modification. The Commission ordered a recalculation of revenue sharing amounts in its resolutions on the 1996 and 1997 reports, based on recommendations by the Energy Division.

D.94-08-023 ordered that the Commission Advisory and Compliance Division (CACD, the predecessor to the Energy Division) would have the "overall responsibility" for the administration of the monitoring and evaluation of the SDG&E PBR. That decision also provided that CACD would issue an annual report on SDG&E's PBR results each year. The Energy Division's evaluation report is included within the Discussion section in this resolution.

As required by D.95-04-069, SDG&E also reports in AL 1166-E/1148-G the change in 1998 available RD&D funding from 1997. Normally this change results from application of the PBR escalation index. However, in D.97-02-014 the Commission adopted an electric RD&D funding level of $4.0 million for SDG&E for 1998, which is substantially less than what would result from application of the PBR escalation index to the 1997 funding level.

In Resolution E-3588, the Commission adopted an electric RPBA for SDG&E. The account allows for the tracking of PBR electric department revenue sharing amounts and various incentive rewards and penalties. In AL 1170-E-A/1152-G-A, SDG&E also established a gas RPBA.

In D.97-12-041, we ordered that "For 1997 and 1998, SDG&E shall record the electric department allocation of any amounts to be shared with ratepayers pursuant to the PBR experiment as a credit in the Transition Cost Balancing Account [TCBA]." (slip op, pg. 14) However, on July 1, 1999, SDG&E's electric rate freeze ended, and the scope of the amounts being recorded in the TCBA was significantly diminished.

In D.96-11-060, the Commission authorized a 1997 rate of return for SDG&E of 9.35%. That ROR was still in effect in 1998 for nongeneration assets.

In D.96-04-059, the Commission adopted a modified San Onofre Nuclear Generating Station (SONGS) settlement agreement, including a reduced ROR for SONGS for SDG&E of 7.14%. On April 12, 1996, SDG&E submitted Advice Letter 983-E in order to implement the SONGS ratemaking procedure adopted in D.96-04-059. The advice letter became effective on April 15, 1996. The new ratemaking procedure for SONGS removed "incremental" expenses from base rate PBR treatment, and removed capital amounts and associated expenses from the calculation of the base rate PBR net operating income. However, for the purpose of calculating the ROR subject to sharing, SONGS rate base is still included in the calculation.

In D.97-11-074, the Commission adopted a reduced ROR for SDG&E's non-nuclear electric generating assets of 6.75%.

## NOTICE

Public notice of this AL 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

No protests were received.

## DISCUSSION

### Revenue Sharing

The Base Rate PBR Mechanism includes a revenue sharing component which allocates SDG&E's recorded net operating income (NOI) between the utility's shareholders and ratepayers. Recorded NOI associated with the combined gas and electric department rate of return (ROR) is allocated as follows: up to and including 100 basis points above the authorized ROR, recorded NOI is allocated 100% to shareholders; for the ROR greater than 100 basis points but no greater than 150 basis points above authorized, recorded NOI is allocated 75% to shareholders and 25% to ratepayers; and for the ROR greater than 150 basis points above authorized, recorded NOI is allocated 50% to shareholders and 50% to ratepayers. Shareholders are at risk for all recorded NOI associated with ROR below authorized.

For 1998, SDG&E recorded an 8.20% combined ROR (for the electric and gas departments) adjusted to base rates, which is 70 basis points below the weighted authorized ROR of 8.90%.[2] Shareholders are at risk for all recorded NOI associated with ROR below authorized.

The Energy Division has reviewed SDG&E's revenue sharing calculations and concurs that the calculations were made correctly.

SDG&E's 1998 Base Rate Report indicates that SDG&E did not meet its authorized ROR in 1998 due mainly to higher O&M and depreciation expense than authorized. SDG&E's previous Base Rate Reports indicated that lower O&M and depreciation expense were among the leading reasons for SDG&E's higher ROR in earlier years. SDG&E reports that lower rate base than authorized contributed positively to the ROR in 1998, but not enough to offset higher O&M and depreciation expense.

The Energy Division found that actual rate base additions for past years have been far lower than the PBR-authorized rate base additions. PBR-authorized net nongeneration plant additions are calculated using a regression formula. In 1998, authorized electric nongeneration net rate base additions amounted to $231.8 million, while actual net additions were only $124.7 million. In 1997, the PBR regression formulas resulted in authorized rate base additions of $312.1 million, while SDG&E's actual net additions were only $203.6 million. A comparable difference occurred in 1996 as well. This difference affects both rate base and depreciation expense. SDG&E's weighted average rate base was about $200 million lower in 1998 than in 1994.

The Energy Division found that SDG&E initiated a large reduction in the number of its "base" and "peakload" employees in the year the PBR experiment began, continued this reduction through 1997, then accelerated the reduction in 1998. SDG&E's total workforce in 1998 was 34% lower than in 1993. This likely made a significant contribution to the reduction in actual O&M expense compared to the PBR-authorized O&M expense through 1997.

However, in 1998, despite the reductions in its number of employees, SDG&E's O&M expense was higher than authorized. This was due largely to merger-related costs, but also due to an increase in uncollectable accounts, higher Information Technology Services, and a change in the way franchise fees are collected. In 1998, the parents of SDG&E and SoCalGas, Enova and Pacific Enterprises, merged to form Sempra. Merger-related costs which have been included as operating expenses amounted to $33.8 million.

Another significant factor affecting SDG&E's operating expenses in 1998 was the acceleration of generation depreciation expense (mainly related to SONGS), required as part of electric restructuring. In 1998, actual electric depreciation expense was about $561 million, while authorized electric depreciation expense was only $287 million. This

[2] The authorized 1998 ROR for SDG&E adopted in D.96-11-060 was 9.35%. In D.96-04-059 the Commission adopted a modified SONGS settlement agreement which included a 7.14% ROR for SONGS, effective April 15, 1996. In D.97-11-074, the Commission adopted an ROR of 6.75% for fossil generation. The effective rate base-weighted SDG&E authorized ROR for 1998 is 8.90%.

huge difference occurred despite the lower actual rate base compared to authorized rate base. Actual electric depreciation expense increased from only $267 million in 1997.

Merger expenses and accelerated depreciation expenses had a major impact on the SDG&E ROR, and on the amount of revenue available for sharing with ratepayers. These two factors alone caused a 246 basis point reduction in the SDG&E actual ROR. Absent the merger expenses and the accelerated depreciation, SDG&E would have recorded an ROR well above authorized and would have shared excess revenues associated with the higher ROR with ratepayers. (In previous years, SDG&E had exceeded its authorized ROR by an average of 138 basis points.) Of course, some Commission-required merger credits were passed on to ratepayers in 1998, and accelerated depreciation enabled a faster end to the transition period.

With electric restructuring, we unbundled generation, transmission, and distribution costs in 1998. We also envisioned that electric distribution PBRs would provide the ratemaking framework for utilities' electric distribution costs. However, we did not change the PBR mechanism for SDG&E in 1998. In D.97-10-057, we stated that "Nothing in this decision authorizes any change to the PBR mechanisms of SDG&E or Edison… Changes to PBR mechanisms … are the topics of other proceedings." (Slip op, pg. 21) Certain restructuring and merger-related changes occurred in 1998 which significantly affected PBR revenue sharing amounts, but we never required that SDG&E's PBR mechanism be applied only to electric distribution costs in 1998. A new SDG&E PBR, applicable to electric distribution and the gas department, was established in 1999.

Finally, 1998 electric sales and revenues were lower than in 1997. Electric revenues were lower due to both the lower sales volume, and due to the 10% rate reduction, required by PU Code Section 368, which began in 1998 for residential and small commercial customers. With the elimination of balancing account treatment for electric revenues, SDG&E was at risk in 1998 for revenues reductions due to lower sales.

**Employee Safety**

The employee safety performance component is based upon the utility's performance in the frequency of certain lost-time accidents reported to the Federal Occupational Safety and Health Administration (OSHA). The employee safety benchmark is set at an OSHA Lost Time Accident (LTA) frequency of 1.20. For each hundredth of a point above and below this benchmark down to 1.17 and up to 1.23, rewards and penalties vary. The maximum reward is $3 million (at 1.17 and lower), and the maximum penalty is $5 million (at 1.23 and higher). For 1998, rewards or penalties received for employee safety performance were allocated 73% to the electric department and 27% to the gas department in 1998.

For 1998, SDG&E reports that it experienced 40 lost-time accidents, resulting in an LTA frequency of 1.15, and the maximum reward of $3 million. SDG&E has reported the maximum reward for all five years of the PBR term, and reported an actual LTA well below the benchmark LTA in the first three years.

For 1997, SDG&E reported 45 lost-time accidents, resulting in an LTA of 1.17. For 1996, SDG&E reported 37 lost-time accidents, resulting in an LTA of 0.98. For 1995, SDG&E reported 35 lost-time accidents, resulting in an LTA of 0.90. For 1994, SDG&E reported 42 lost-time accidents, resulting in an LTA of 1.04.

According to the March 31, 1997 midterm evaluation report conducted by Vantage Consulting for SDG&E, SDG&E's internal corporate goal is an LTA of 1.10.

The Energy Division has reviewed SDG&E's employee safety performance reward calculations and concurs that they were made correctly.

We believe that SDG&E's calculated reward of $3 million should be adopted.

**Customer Satisfaction**

The customer satisfaction performance component is based on the utility's year-to-date performance as reported in the Customer Service Monitoring System (CSMS) Results. CSMS is an internally-generated survey of over 10,000 SDG&E customers which SDG&E has conducted since the 1970's. It assesses customer satisfaction in seven service areas based on interviews with a sample of customers receiving the particular service over the subject year. The customer satisfaction benchmark is set at 92% of the surveyed customers indicating a "very satisfied" response. The reward or penalty varies with each half of a percentage point in these responses, down to a maximum penalty of $2 million at 89% or lower, and a maximum reward of $2 million at 95% or higher. For 1998, rewards or penalties are allocated 73% to the electric department and 27% to the gas department.

For 1998, SDG&E reported that 93.5% of the SDG&E customers which were surveyed are "very satisfied" with the utility's service, resulting in a reward of $1,000,000.

The survey was audited by an independent accountant, Armando Martinez & Company, which found that the 1998 SDG&E CSMS Results were unbiased and valid.

This is the fifth year in a row in which SDG&E has reported a reward for customer satisfaction. In 1994 through 1996, SDG&E reported a 95% "very satisfied" customer response, resulting in the maximum reward of $2 million for each of those years. For 1997, SDG&E reported that 93% of the SDG&E customers which were surveyed were "very satisfied" with the utility's service, resulting in a reward of $666,667.

The Energy Division has reviewed SDG&E's 1998 customer satisfaction performance, and concurs that a $1,000,000 reward results.

**Electric System Reliability**

SDG&E's electric system reliability performance is based on its System Average Interruption Duration Index (SAIDI) as reported in the annual Electric Distribution System Performance Report. SAIDI measures the average electric service interruption duration per customer served per year, excluding "major events". The benchmark SAIDI for the SDG&E PBR is 70 minutes. Rewards or penalties vary with each half a minute change from the benchmark, with a maximum reward at 50 minutes or less, and a maximum penalty at 90 minutes or more.

"Major events" are excluded from the SAIDI calculation when the following conditions a., b., and c. are met <u>or</u> condition d. is met:

a. customer outages attributed to highly unusual events (e.g. severe storms or earthquakes);
b. 10,000 customers out of service simultaneously in any single district;
c. more than five simultaneous outages in any single district;
d. customer outages beyond the control of the district.

For 1998, SDG&E reported a SAIDI of 99.3 minutes which resulted in the maximum $4 million penalty. This is the third year in a row in which a reliability penalty occurred, and the SAIDI performance has steadily deteriorated over the last four years. For 1997, SDG&E reported a SAIDI of 91.4 minutes which resulted in the maximum $4 million penalty. For 1996, SDG&E reported a SAIDI of 77.5 minutes which resulted in a $1.5 million penalty. For 1995, SDG&E reported a SAIDI of 67.4 minutes, resulting in a reward of $500,000. For 1994, SDG&E reported a SAIDI of 70.1 minutes, resulting in no reward or penalty.

SDG&E excluded four "major events" from its SAIDI calculation. However, the exclusion of these "major events" had no impact on the SAIDI penalty results since the maximum penalty was incurred.

The Energy Division has reviewed SDG&E's 1997 electric reliability performance and concurs that a $4 million penalty results.

**Overall PBR Evaluation**

As discussed above, prior to 1998, SDG&E had taken measures to reduce its operating costs. But SDG&E shareholders had obtained far more of the benefits of such measures than ratepayers. The Energy Division reviewed the revenue sharing calculations and rewards and penalties through 1998, and found that the following revenue sharing benefits and rewards and penalties occurred:

Ratepayer/Shareholder Allocation of SDG&E PBR Revenue Sharing
($millions)

| | 1994 | 1995 | 1996 | 1997 | 1998 | Total |
|---|---|---|---|---|---|---|
| Ratepayer share | 0 | $3.0 | $5.4 | $5.6 | 0 | $14.0 |
| Shareholder share | $33.0 | $27.0 | $31.8 | $40.3 | ($18.7) | $113.4 |

Quality of Service Rewards/(Penalties) Paid to SDG&E by Shareholders
($millions)

| | 1994 | 1995 | 1996 | 1997 | 1998 | Total |
|---|---|---|---|---|---|---|
| Reward/(Penalty) | $7.0 | $5.5 | $6.5 | ($0.3) | 0 | $18.7 |

For the term of the mechanism, SDG&E shareholders received a benefit of $113 million, while ratepayers have been allocated a revenue benefit of only $14 million. The SDG&E Base Rates PBR revenue sharing mechanism has clearly benefited SDG&E's shareholders far more than it has benefited ratepayers.

As shown above, the Energy Division also found that, when the PBR performance rewards are taken into account, ratepayers will actually have paid more in total performance rewards than they received in PBR revenue sharing benefits. As noted above, ratepayers would only receive $14 million in shared revenues, which serves to reduce rates. However, ratepayers have also paid over $18.7 million in PBR performance rewards.[3] Thus, ratepayers would have made net payments of over $4 million to SDG&E shareholders, while SDG&E shareholders would be allocated more than $132 million.

Employee safety has been enhanced under PBR operation, although safety performance was improving prior to PBR implementation. Customer satisfaction with the measured SDG&E services has been maintained at historically high levels, but it also was significantly and steadily improving prior to PBR implementation.

On the other hand, average electric reliability has declined during the last three years of the PBR term. In fact in 1997 and 1998, the SDG&E SAIDI turned out to be at its highest level in many years. In the last three years, SDG&E has incurred a performance penalty for electric reliability. Its average SAIDI for the five years of the PBR is higher than the average SAIDI for the five-year period just prior to the PBR, i.e. 1989-1993.

As noted earlier, SDG&E's actual net nongeneration plant additions have been far lower than the authorized net nongeneration plant additions under its PBR. SDG&E had also kept its O&M expenses low prior to 1998. At the same time, SDG&E has experienced a decline in electric reliability. This indicates a potential problem which we need to pay attention to with regard to PBR regulation. SDG&E has an incentive to keep its plant additions and O&M expenses low. They also have an incentive to maintain or improve

[3] Of the $18 million in performance rewards, $5 million were related to the electric price performance indicator, which has been eliminated from the PBR mechanism starting in 1997.

electric reliability. Companies under PBR regulation with these incentives may find it financially advantageous to minimize plant additions and system maintenance to the detriment of electric system reliability. The incentives we adopt under PBR regulation to maintain electric system reliability may need to be examined to ensure that they are strong enough to overcome the potential incentives to avoid making necessary plant additions and to avoid conducting proper system maintenance.

The PBR escalation mechanism has resulted in higher electric and gas authorized revenue requirements each year it has been in operation. The Energy Division found that it is difficult to compare the above PBR performance with what would have occurred under traditional GRC regulation. This is generally because: 1) one would have to speculate about whether SDG&E would have made the same efforts to reduce costs under traditional regulation, and 2) one would have to speculate about the revenue requirement the Commission might have adopted in attrition years and in a 1996 test year GRC. Nevertheless, the above data raises questions about whether ratepayers would have fared better under traditional GRC regulation than the adopted base rate PBR.

The revenue sharing tiers which the Commission adopted for Southern California Edison Company and Southern California Gas Company both provide potentially greater revenue sharing benefits to ratepayers than the SDG&E PBR in operation in 1998, particularly within the initial sharing tiers. In SDG&E's new PBR, the Commission has adopted revenue sharing tiers which are similar to SoCalGas'. In addition, the benchmarks for the employee safety, customer satisfaction, and electric reliability have been revised.

One of the initial intentions of the SDG&E PBR was to provide an incentive to reduce SDG&E's high electric rates. The PBR originally included a price performance component which compared SDG&E's system average electric price to the national average. The benchmark was set at about 137% of the national average in 1994, and declined in subsequent years to 132% in 1998. If SDG&E could bring its rates under the benchmark, it would receive a reward. If SDG&E's electric rates exceeded the benchmark, it would be penalized. This component was eliminated at then end of 1996 due to the electric price freeze established in California. Through the end of 1996, SDG&E had achieved some success in reducing its electric rates below the benchmark. In 1996, SDG&E's rates were 133.6% of the national average, while the 1996 benchmark was 135%. Based on preliminary information, in 1997, its electric rates were 137.5% of the national average. Had the electric price incentive remained in effect, the 1997 benchmark would have been 133.5%.[4]

In 1991, 1992, and 1993, SDG&E's electric rates were 132%, 131%, and 130% of the national electric price average. Thus, while the electric price performance component was in effect, SDG&E's electric rates fell in relation to the national average, but

[4] SDG&E's electric rates were not strictly frozen in 1997. SDG&E was allowed to increase its rates due to Section 397 of the Public Utilities Code. Section 397 allowed SDG&E to increase rates up to a certain level if gas prices increased. SDG&E did in fact increase its electric rates in 1997 according to the mechanism allowed by Section 397.

remained relatively high compared to its rates prior to PBR operation. In 1997, SDG&E's electric rates were higher than the benchmark, relatively higher than prior to PBR operation, and relatively higher than in 1994, the first year of PBR operation.

**Research, Development, and Demonstration**

In compliance with D.95-04-069, SDG&E also must submit with its annual advice letter filing its report of the change in available RD&D funds resulting from the application of the performance-based O&M escalation index.

In D.97-02-014, the Commission adopted an RD&D funding level of $4.0 million for SDG&E in 1998, due to changes brought about by electric restructuring. This funding level is substantially less than the funding level which would result from application of the PBR escalation index. SDG&E's authorized RD&D revenue decreased $2,496,000 in 1998 from 1997 for a total RD&D budget of $5,216,000.

The Energy Division has reviewed the increase in RD&D funds, and concurs with the decrease in the RD&D budget of $2,496,000 in 1998.

**Recording of the Electric Penalty and Gas Reward**

SDG&E indicates in its Base Rate PBR Report that it intends to record the electric performance penalty in its electric RPBA, pursuant to Resolution E-3588. SDG&E does not indicate how it intends to record the gas reward. SDG&E should record the gas performance reward in its gas RPBA.

**Effective Date**

SDG&E requests an effective date of June 23, 1999. This resolution and approval of the Base Rate PBR Report will be effective today.

**COMMENTS**

The only party, SDG&E, has stipulated to waive the 30-day waiting period required by PU Code Section 311 (g)(1), and the opportunity to file comments on the draft resolution. Accordingly, this matter will be placed on the Commission's agenda directly for prompt action.

**FINDINGS**

1. SDG&E filed AL 1166-E/1148-G on May 14, 1999, requesting approval of its PBR Base Rate Mechanism Final Performance Report for 1998. This report transmits the Company's revenue sharing calculations and performance component rewards and penalties under the mechanism for 1998.

2. No parties filed a protest of AL 1166-E/1148-G.

3. In 1998, SDG&E did not achieve its authorized ROR. Its weighted total company authorized ROR was 8.90%, while SDG&E achieved an 8.20% ROR. SDG&E did not achieve its authorized ROR due mainly to merger costs, accelerated depreciation expense associated with SONGS, and lower electric sales and revenues.

4. The following performance rewards and penalties should be approved:

**ELECTRIC DEPARTMENT**

| | |
|---|---|
| Performance Rewards/(Penalties) | |
| Employee Safety | $2,190,000 |
| Customer Satisfaction | $ 730,000 |
| System Reliability | ($4,000,000) |
| Total Electric Department | ($1,080,000) |

**GAS DEPARTMENT**

| | |
|---|---|
| Performance Rewards/(Penalties) | |
| Employee Safety | $810,000 |
| Customer Satisfaction | $270,000 |
| Total Gas Department | $1,080,000 |

**Combined 1997 Performance Reward/(Penalty)** $0

5. For the years 1994 through 1998, SDG&E achieved PBR rewards totaling $18.7 million. Part of the reason for the rewards was due to the former electric price comparison performance indicator.

6. In addition, due to its past achievement of a higher ROR than authorized by the PBR, SDG&E shareholders have gained over a $113 million benefit, while ratepayers have benefited by only $14 million. When payments made by ratepayers for performance rewards are also considered, shareholders have achieved a net benefit of over $130 million, while ratepayers have made net payments of $4.7 million.

7. These results have occurred despite a decline in average electric reliability. Good performance has been achieved in customer satisfaction and safety performance during the operation of the PBR, but performance in these areas was improving before the PBR was implemented.

8. SDG&E's electric shareholder penalty should be recorded in the electric RPBA. SDG&E's gas shareholder reward should be recorded in gas RPBA.

9. The RD&D authorized revenue decrease for 1998 should be $2,496,000.

**THEREFORE, IT IS ORDERED THAT:**

1. SDG&E's Base Rate Report for 1998, is approved, with an effective date of today.

2. SDG&E's electric and gas department rewards and penalties, as indicated above, are approved, and should be recorded in the electric and gas RPBAs.

3. The RD&D budget decrease for 1998 shall be $2,496,000.

4. This resolution is effective today.

I certify that the foregoing resolution was duly introduced, passed and adopted at a conference of the Public Utilities Commission of the State of California held on November 4, 1999; the following Commissioners voting favorably thereon:

Wesley Franklin

WESLEY M. FRANKLIN
Executive Director

RICHARD A. BILAS
President
HENRY M. DUQUE
JOSIAH L. NEEPER
JOEL Z. HYATT
CARL W. WOOD
Commissioners