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PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

COMMISSION ADVISORY AND COMPLIANCE DIVISION
Energy Branch

RESOLUTION G-3156
December 21, 1994

R E S O L U T I O N

RESOLUTION G-3156. SOUTHERN CALIFORNIA GAS COMPANY (SOCALGAS) REQUESTS AUTHORITY TO REFLECT IN ITS TARIFFS AN INCREASE IN REVENUE REQUIREMENT RESULTING FROM OPERATIONAL AND CAPITAL RELATED ATTRITION FOR 1995 AND TO ESTABLISH POSTAL INCREASE RATE ADJUSTMENT MEMORANDUM ACCOUNT.

BY ADVICE LETTERS 2366-G, 2366-G-A, FILED ON OCTOBER 7, AND NOVEMBER 23, 1994.

SUMMARY

1. Southern California Gas Company (SoCalGas) requests authority to increase gas rates to reflect the results of 1995 operational and rate base attrition as allowed by D.93-12-043, the Test Year 1994 General Rate Case decision. Appendix C to D.93-12-043 contains the attrition agreement between the Division of Ratepayer Advocates (DRA), Toward Utility Rate Normalization (TURN) and SoCalGas. SoCalGas also requests to change rates as allowed by the Commission's generic decision (D.85-12-076) to reflect changes in taxes and amortization of costs associated with utility programs and accounts. These include amounts recently authorized by the Commission either to be recovered in rates or returned to ratepayers.

2. SoCalGas also seeks to revise its Preliminary Statement Part VI to establish a temporary memorandum account from January 1 to December 31, 1995, to record the incremental costs resulting from January 1, 1995 United States Postal Service rate increase. On December 12, 1994, SoCalGas revised its request that the revenue requirement resulting from postal service rate increase of $1.560 million be included in rates effective January 1, 1995.

3. The combined effect of the latest various components of SoCalGas' attrition filing is a $73,711 million increase in gas revenues. This consists of an operations and maintenance (O&M) attrition adjustment of $3.825 million, capital related items of $49.890 million and other authorized items of $19.996 million. SoCalGas' original request of $46.186 million was reduced to $45.300 because of an error. However, SoCalGas has revised this

amount to include the effect of the cost of capital decision, issued on November 21, 1994.

4. In D.94-11-076, the cost of capital decision, the Commission increased SoCalGas' rate of return from 9.22% to 9.67%. The return on equity has the most significant increase, changing from 11.0% to 12.0%. As a result, SoCalGas revised its 1995 Attrition filing, increasing its attrition revenue requirement from $45.300 million to $73.711 million. Because of the cost of capital decision, SoCalGas' request for capital related items increased from $23.053 million to $49,890 million or by $26.837 million.

5. TURN filed a timely protest contending that SoCalGas' filing would not properly implement the portion of the settlement dealing with rate base attrition. On November 21, 1994, TURN filed a Supplemental protest in response to SoCalGas' response to TURN's protest. TURN's protest is denied because its recommendation is not in accordance with the attrition agreement. TURN's supplemental protest is not allowed under General Order 96-A. CACD confirms TURN's calculation that SoCalGas made an error in calculating its attrition. CACD had brought this error to SoCalGas' attention and was corrected.

6. SoCalGas' request of $73.711 million for operational and rate base attrition is reduced by the revenue requirement of $1.560 million for a postal rate increase, which is not final as a matter of law as required by D.85-12-076. A revenue requirement increase of $72.151 million is granted because this is in compliance with D.93-12-043, D.85-12-076, D.94-11-076 and other Commission decisions. SoCalGas' request of a temporary memorandum account to record the incremental costs resulting from postal rate increase effective January 1, 1995, is also approved.

BACKGROUND

1. SoCalGas filed Advice Letter 2366-G on October 7, 1994 requesting a change in rates to reflect the results of 1995 operational attrition. The Commission allows utilities to update their revenue requirement to reflect changes in rate base and the effects of inflation on operating and maintenance (O&M) expenses through Attrition Rate Adjustment (ARA) filings. SoCalGas filed its ARA as authorized by its general rate case decision D.93-12-043 and as allowed by D.85-12-076, the generic decision on attrition.

2. Operational attrition is a decrease in a utility's net operating income due to an increase in O&M expenses related to inflation between general rate case test years. Capital-related attrition is a change in a utility's net operating income due to rate base and cost of capital changes between general rate case test years. SoCalGas' 1995 ARA filing is the first of the two attrition years granted by D.93-12-043. However, there is a motion filed by TURN, DRA and others before the Commission to eliminate attrition filings because of changed economic conditions.

3. In SoCalGas' Test Year 1994 GRC (A.92-11-017), a major disagreement between SoCalGas, TURN, and DRA had to do with operational and rate base attrition for 1995 and 1996. SoCalGas proposed that it be granted a revenue requirement attrition increase for 1995 and 1996 under the existing attrition mechanism. DRA, joined by TURN, proposed that SoCalGas receive no operational attrition rate increase for 1995 and 1996 except, to the extent that inflation for each of those years exceeded six percent (6%). DRA's proposal would allow SoCalGas operational and rate base attrition as calculated under the current mechanism, less 6% inflation for each year. In addition, SoCalGas requested Commission approval of its Aliso Canyon Cogeneration project estimated to have a total direct cost of $64.5 million in the general rate case as part of its attrition year rate base. DRA and TURN had argued that SoCalGas should file a separate rate application to have this project added to rate base in an attrition year.

4. In D.93-12-043, Appendix C, Attrition Issues - Stipulation and Agreement contains the resolution of attrition issues. Page 2 of Appendix C states in part: "As a material part of the consideration for the various elements of the Global Settlement, the parties agreed to settle their disagreement over attrition issue and the treatment of the Aliso Canyon project in this General Rate Case on the following terms:"

> Operating and Maintenance (O&M) attrition issue is resolved by allowing SoCalGas to increase rates during the attrition years 1995 and 1996 only to the extent inflation exceeds 2% in 1995 and 3% in 1996.
>
> For rate base attrition, "SoCalGas will use a three year rolling average of nominal dollar recorded net plant additions, excluding major projects, using the standard method to determine rate base attrition. For example, for 1995 amount equals the sum of the data recorded for years 1991, 1992, and 1993, divided by three.... The Aliso Canyon project will be litigated in a separate Section 454 rate application."

5. The effectiveness of the Stipulation and Agreement depends upon the Commission's approval without material change of all of the elements of the Global Settlement. By D.94-07-064, the Commission approved the Global Settlement Agreement, which resolved the issues central to SoCalGas' operations and rates without any material change.

6. SoCalGas requests an O&M attrition adjustment including labor and non-labor escalation of $3.825 million; Capital related items attrition adjustments of $23.053; and Additional authorized revenue adjustments of $18.422, for a total of $45.300 million as revised by SoCalGas due to an error discovered by CACD. SoCalGas filed Advice Letter 2366-G-A on November 21, 1994, revising its original request of $46.186 million. This was necessary because of SoCalGas' error in its calculation of the weighted average plant additions for 1995 by using a weighting factor not in accordance with the attrition

agreement. SoCalGas has included in its request, revenue increases and decreases as allowed and authorized by the Commission. These include unspent Demand Side Management funds, 1994 Post-retirement Benefits Other than Pensions (PBOPs) costs, tax rate changes, and others. SoCalGas has incorporated in its attrition calculations the adopted general rate case factors for franchise fees and uncollectibles (FF&U) of 1.019640 and net to gross multiplier of 1.833160 where applicable.

7. In Advice Letter 2366-G-A, SoCalGas also requests authority to revise its Preliminary Statement Part VI to establish a temporary memorandum account from January 1 to December 31, 1994, to record the incremental revenue requirement because of pending January 1, 1995 United State Postal Service increase of 10.3%. The projected accumulated revenue in the Postal Increase Rate Adjustment Memorandum Account (PIRAMA) is $1.539 million based on Test Year 1994 estimates.

8. On December 12, 1994, in Supplemental Advice Letter 2366-G-B, SoCalGas further revised its revenue requirement from $45.300 million to $73.711 million, resulting from the effect of the cost of capital decision of $26.837 million increase and other changes. D.94-11-076 increases SoCalGas' rate of return from 9.22% to 9.67%. The return on equity has the most significant increase from 11.0% to 12.0%. SoCalGas also asked that the revenue requirement resulting from postal rate increase of $1.560 million be included in rates effective January 1, 1995.

NOTICE

1. Public notice of this filing has been made by publication in the Commission's calendar and by mailing copies to interested parties specified by General Order 96A and to all parties of record in A.92-11-017 and R.88-08-018.

PROTESTS

1. CACD received TURN's protest on October 27, 1994. SoCalGas responded on November 4, 1994, because it did not receive TURN's protest until October 28, 1994. TURN filed a Supplemental protest on November 21, 1994 in response to SoCalGas' response to TURN's protest.

2. TURN protests SoCalGas' calculations of "Increase in Weighted Average Plant in Service" for Attrition Year 1995 and SoCalGas' application of the amount derived to other revenue requirement calculations. TURN however, has no problem with how SoCalGas has calculated the three year rolling average of nominal dollar recorded net additions of $249.343 million required by the attrition agreement. TURN is concerned however, as to why the $249.343 million derived has been used "... <u>only</u> in determining state and federal tax depreciation." Therefore, TURN submits that SoCalGas is inconsistent because its proposed attrition components for plant in service, depreciation reserve and expense, deferred taxes, debt service costs, and return on equity are all derived on an entirely different method.

3. TURN contends that the above attrition components are driven not by year-end plant in service but by the weighted average plant balance for each year. As a result, TURN submits that SoCalGas should have calculated a three year average growth of weighted average plant balances as done by SoCalGas for the three year rolling average. TURN calculated this amount to be $267.6 million based on SoCalGas' data, instead of $270.4 million derived by SoCalGas.

4. SoCalGas calculated its $270.4 million using the following three components: Weighted Average Additions for Test Year 1994; Net Additions for Test Year 1994, and Weighted Average Plant Additions for Attrition Year 1995. TURN disagrees with how SoCalGas derived the amount for the last component because the calculation uses a forecasted multiplier. The multiplier factor is the result of dividing the weighted average plant additions authorized for Test Year 1994 by the authorized net plant additions for the same test year, producing a weighting factor of 0.40995. SoCalGas then multiplied this factor by $249.389 million, to arrive at a weighted average plant additions of $102.218 million for 1995. The addition of the authorized net plant additions ($285.012 million) with the $102.218 million less the weighted average plant additions for 1994 ($116.841 million) gives SoCalGas the $270.4 million. The above method is characterized by SoCalGas as the "standard methodology" referred to in the attrition agreement. However, TURN alleges that "SoCalGas' heavy reliance on forecasted figures is completely misplaced...."

5. SoCalGas contends that its calculation of the weighted average plant increase for attrition year 1995 has been based on the exact language of the attrition settlement and the material that was received in the general rate case record in support of the settlement. It believes that the operative language in the attrition settlement is "... using the standard method to determine rate base attrition." SoCalGas believes that the "standard methodology" requires the application of a "skewing factor" approach to prior year and current year net plant additions before reflecting weighted average plant additions in rate base as explained above. SoCalGas submits that the Commission has adopted a "skewing factor" based on the assumption that plant additions generally do not go into service evenly throughout a calender year, but, they tend to be more concentrated in the second half of the year.

6. In addition, SoCalGas provides a reasonable response on why it has used two different methods for tax depreciation attrition and rate base additions. SoCalGas states that the Commission has adopted two different methods as done by SoCalGas in past general rate case and attrition decisions in order to ensure that customers do not pay a return on plant until it goes into service. SoCalGas requests that TURN's protest be "declared invalid."

DISCUSSION

1. CACD has reviewed Advice Letters 2366-G and 2366-G-A for compliance with the attrition agreement attached to D.93-12-043 (SoCalGas' Test Year 1994 GRC) including D.85-12-076 (Generic ARA). CACD also reviewed TURN's protest and SoCalGas' response.

2. TURN has no problem with SoCalGas' calculations of the "three year rolling average of nominal dollar recorded net plant additions" because SoCalGas followed the method provided in the attrition settlement. However, TURN does not agree with SoCalGas on using forecasted numbers to derive a weighting factor applied to the three year rolling average that produces the weighted average additions for 1995. TURN states that "The desire to avoid use of forecasted numbers in the attrition rate base calculation was a major TURN objective in the attrition settlement process." CACD believes that the above statement reflects the issue in this attrition filing. The issue is: Should the weighting factor necessary to determine the weighted average plant additions for 1995 be based on forecasted numbers or an average of recorded weighting factors consistent with the calculation of the three year rolling average?

3. CACD finds the answer to the above question in Appendix C to the motion jointly filed by DRA, TURN, and SoCalGas on October 12, 1993, in the general rate case. The motion requested the Commission approve the attrition mechanism settlement for 1995 and 1996. The motion was admitted as Exhibit 87G and its Appendix C contained in detail the methodology to be followed to calculate rate changes for 1995 and 1996. CACD finds that the agreement between the settling parties is to use a three year (1991-1993) average of weighting factors to calculate the 1995 weighted average plant additions. SoCalGas initially failed to use this method and this likely prompted TURN's protest. CACD has informed SoCalGas of this error and SoCalGas has revised its filing and the affected calculations.

4. TURN also alleged that SoCalGas inconsistently applied the $270.4 million derived by the "standard methodology." CACD believes that SoCalGas has provided sufficient response to justify why it has used two different methods for tax depreciation attrition and plant additions purposes. TURN's calculation of a three year average growth of weighted average plant balances is not in accordance with the attrition agreement and the "standard methodology" which requires an application of a "skewing factor." Therefore, TURN's protest is denied.

5. On November 21, 1994, CACD received TURN's Supplemental protest to SoCalGas' response, indicating an implicit acceptance of SoCalGas' method. However, TURN disagrees with SoCalGas for using one year weighting factor to determine its 1995 weighted average plant additions. SoCalGas' correction of this error was already underway when TURN's supplemental protest was received by CACD. CACD confirms TURN's observation.

6. **1995 ATTRITION RATE ADJUSTMENT**

A. Operation and Maintenance

SoCalGas requests O&M attrition adjustment of $3.825 million including labor and non-labor escalation for compliance with the attrition agreement and the "true up" method generally used for this type of calculation. CACD recommends that this part of the request be approved.

B. Capital Related Items

The Commission allows utilities to include estimates for plant additions in ARA filings. The method(s) producing these estimates are generally established during the general rate case proceedings. For SoCalGas' attrition years 1995 and 1996, the methods are described in Appendix C to D.93-12-043 as already discussed. Plant addition estimates generally generate revenue requirements associated with depreciation expense, ad valorem taxes, impact of depreciation expense on taxes and others.

By Supplemental Advice Letter 2366-G-B, SoCalGas requests $49,890 million for capital related items, which includes the effect of the cost of capital decision. CACD verified SoCalGas' computations for correctness and recommends that SoCalGas' request of $49.890 million for capital related items be approved.

C. Other Authorized Items

The Commission uses the attrition process as a vehicle to reflect in rates costs and/or savings associated with various utility programs and accounts including the effects of tax changes. These include the following: PBOPs, Demand Side Management (DSM) refunds, Arco Lease, Federal Tax Effect on Prior Year California Corporation Franchise (CCFT), Payroll Taxes, Intervenor Funding, Amortization of Contributions In Aid of Construction (CIAC), and Equity Interest in Gas Tower. Each item is discussed below:

i. **Post-retirement Benefits Other than Pensions:** Pursuant to D.94-09-063 SoCalGas requested in Advice Letter 2358-G authority to establish a temporary memorandum account for the recording the authorized revenue requirement for its 1994 PBOPs costs of $6.25 million and to include the amount in its 1995 attrition revenue adjustment. SoCalGas further requested the recovery of its 1994 PBOPs costs at present rates and its 1995 PBOPs attrition of $6.368 escalated at the rate of inflation allowed by D.93-12-043. Resolution G-3151 dated December 21, 1994 approved the above request. DRA protested SoCalGas' escalation of 1995 PBOPs attrition by inflation rate on grounds that pursuant to D.91-09-063, the Commission did not allow SoCalGas to inflate its 1994 PBOPs costs expressed in 1991 dollars. CACD recommended that DRA's protest be denied. The revenue requirement for SoCalGas' request totals $12.871 million, which includes adjustment for franchise fees and uncollectibles as authorized by D.93-12-043. CACD recommends that SoCalGas' request be approved.

ii. **Demand Side Management Refunds and Incentive Award:** Pursuant to the provision of D.90-10-016 dated January 9, 1990, SoCalGas filed Advice Letter 2357 on September 28, 1994, requesting authority to return underspent DSM funds of $1.998 million, including interest to ratepayers. SoCalGas has included this refund to ratepayers in its 1995 attrition filing. The refund reduces SoCalGas' revenue requirement request by $2.038 million.

iii.In addition, SoCalGas in Advice Letter 2364-G of October 6, 1994, requested authority to return $213,854, including interest of unspent DSM funds authorized ($300,000) as a carryover from 1993 to 1994 to continue TEAM UP activities. TEAM UP has to do with the 1992 southern California civil disturbance. Resolution G-3019, dated February 16, 1994, authorized the transfer with the condition that any unspent funds as of June 30, 1994, shall be returned to ratepayers. SoCalGas has included this refund also in its 1995 attrition filing. The refund reduces SoCalGas' revenue requirement by $218,000.

iv. **Arco Lease:** In D.94-07-061, the Commission authorized SoCalGas to recover through rates not more than $750,000 per year associated with the costs of leasing, upgrading, operation and maintenance of the Cuyama/Casitas pipeline being leased by SoCalGas from Atlantic Richfield Company (ARCO), beginning from the lease date. The lease is dated October 1, 1994. SoCalGas' 1995 attrition filing includes recovery for 1994 and 1995 costs of $187,000 and $764,000 (adjusted for inflation) respectively. CACD recommends that SoCalGas' total revenue requirement of $971,000 be approved.

v. **Federal Tax Effect on Prior Year CCFT:** SoCalGas estimated that CCFT would decrease by $11.632 million from 1993 to 1994. This decrease would increase Federal tax by $4.080 million including Superfund tax. Therefore, SoCalGas requests revenue increase of $7.479 million. CACD recommends that SoCalGas' request be approved.

vi.**Payroll Taxes:** SoCalGas requests a $100,000 revenue increase for the recovery of increases in the Federal Insurance Contributions Act (FICA) base amount as allowed by D.85-12-076. CACD recommends that SoCalGas' request be approved.

vii.**Intervenor Funding:** SoCalGas requests a $371,000 revenue increase for the recovery of intervenor funding for 1993 and 1994. SoCalGas states that no provision was made for intervenor funding in its Test Year 1994 GRC. CACD recommends that SoCalCas' request be approved.

viii.**Amortization of CIAC Revenue:** SoCalGas estimates that the amortization of CIAC revenue provides a revenue decrease of $1.08 million. CACD agrees with the revenue requirement reduction and that the amount be approved.

ix. **Equity Interest in Gas Tower:** SoCalGas estimates that increase in cash flow from equity interest for 1995 produces a revenue decrease of $19,000. CACD agrees with the revenue requirement reduction and that the amount be approved.

7. In its revised attrition filing, SoCalGas requests authority to establish a temporary memorandum account from January 1 to December 31, 1995, to record incremental revenue requirement that may result from postal rate increase of 10.3% effective January 1, 1995. The account will track the incremental costs to be recovered in rates by SoCalGas effective January 1, 1996. SoCalGas requests this authority only if the final approval of the proposed postal rate increase is not received until after December 9, 1994. On December 12, 1994, the Governors of the United States Postal Service approved a postal rate increase. CACD finds SoCalGas' request reasonable and recommends that the temporary PIRAMA be approved.

FINDINGS

1. D.93-12-043 authorized SoCalGas to increase its base rates to offset operational and capital related attrition in accordance with the attrition agreement between SoCalGas, DRA, and TURN.

2. Because the Commission increased SoCalGas' rate of return from 9.22% to 9.67%, SoCalGas revised its 1995 Attrition filing on December 12, 1994.

3. The labor and non labor escalation rates used by SoCalGas are in compliance with the attrition agreement dated December 17, 1993 in D.93-12-043.

4. SoCalGas revised its attrition calculations for certain capital related items because of an error.

5. SoCalGas eventually used the appropriate method for the calculations of its 1995 weighted average plant additions and weighted average plant increase, therefore, no further revision is necessary.

6. SoCalGas has used a franchise fees and uncollectibles (FF&U) factor of 1.019640 and net-to-gross multiplier of 1.833160 adopted in D.93-12-043 for the calculation of its revenue requirement as generally allowed by the Commission.

7. D,85-12-076 allows SoCalGas to request revenue requirement changes associated with changes in tax rate and employment taxes.

8. SoCalGas requests the following revenue requirement increases:

-$3.825 million for operational and maintenance including labor and non-labor adjustments.
-$49,890 million for capital related items.
-$971,000 for Arco Lease pursuant to D.94-07-061.

-$7.479 million for Federal Tax as a result of a decrease in Prior Year California Franchise Tax.
-$100,000 as a result of increase in FICA base amounts pursuant to D.85-12-076.
-$371,000 for intervenor funding paid by SoCalGas in 1993 and 1994.

9. SoCalGas requests the following revenue requirement decreases:

-$2.252 million resulting from unspent DSM funds being returned to ratepayers as authorized by the Commission.
-$1.08 million for SoCalGas' continuance amortization of Contributions in Aid of Construction revenues as authorized by the Commission.
-$19,000 cash flow increase from the equity interest in Gas Tower pursuant to D.92-07-080.

10. Resolution G-3151 dated December 21, 1994 authorized SoCalGas to recover its 1994 PBOPs costs of $6.25 million pursuant to D.94-09-063. The Resolution also approved SoCalGas' request for 1995 PBOPs attrition. The total revenue increase for PBOPs in 1995 is therefore $12.871 million.

11. On November 23, 1994, SoCalGas revised its advise letter requesting authority to revise its Preliminary Statement Part VI to establish a temporary memorandum account to record the incremental costs resulting from a postal rate increase.

12. CACD finds SoCalGas' request reasonable and in compliance with Commission decisions and resolutions.

THEREFORE, IT IS ORDERED that:

1. Southern California Gas Company is authorized to increase its Base Rate Revenues by $72.151 million effective January 1, 1995 as revised and to establish a temporary memorandum account to record the incremental costs resulting from a postal rate increase.

2. Southern California Gas Company is authorized to increase its rates effective January 1, 1995 based on the equal percent of margin changes method for base revenues.

3. Southern California Gas Company shall file a Supplemental Advice Letter with a revised Preliminary Statement and tariff schedules for attrition year 1995 incorporating the authorized revenues for 1995 Attrition as adopted here not later than December 30, 1994. The revised Preliminary Statement and tariff schedules shall have an effective date of January 1, 1995.

4. This resolution is effective today.

I hereby certify that this Resolution was adopted by the Public Utilities Commission at its regular meeting on December 21, 1994. The following Commissioners approved it:

Neal J. Shulman

NEAL J. SHULMAN
Executive Director

DANIEL Wm. FESSLER
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