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~~EXHIBIT #15~~

CALIFORNIA PUBLIC UTILITIES COMMISSION
Revenue Requirements Division

REPORT ON THE
RESULTS OF OPERATION
OF
SAN DIEGO GAS & ELECTRIC COMPANY
GAS DEPARTMENT
TEST YEAR 1981

Application No. 59788

J-1490

San Francisco, California
September 8, 1980

8108110762

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MEMORANDUM

This report was prepared by the Revenue Requirements Division staff under the direction of Project Manager Francis S. Ferraro. Individual chapters were prepared by the following members of the staff:

Chapter	Title	Witnesses
1	Introduction	Francis S. Ferraro
2 and 3	History and Present Operations	See Company Report
4, 5, and 6	Balance Sheet, Statements of Income and Retained Earnings and Clearing Accounts	Gilbert Infante
7	Operating Revenues	Sandy Miller
8	Supply Expenses	Harold Rayburn
9	Storage Expenses	Harold Rayburn
10	Transmission Expenses	Harold Rayburn
11	Distribution Expenses	Harold Rayburn
12	Customer Accounts Expenses	Paul M. Chan
13	Customer Service and Informational Expenses	David Barnhardt
14	A&G Expenses	Donald McCrea
	Pensions	Sandy Miller
	R&D	Ramesh Joshi
15	Taxes - Ad Valorem and Payroll	James Bondeson
	Income	Greg Mulligan
16	Gas Plant	Willem Van Lier
17	Depreciation Expense	Kevin Coughlan
18	Rate Base	Willem Van Lier
	Working Cash Allowance	Sung B. Han
19	Summary of Earnings	Francis S. Ferraro
20	Recommendations	Francis S. Ferraro

CHAPTER 1

INTRODUCTION

A - PURPOSE OF REPORT

1. The purpose of this report is to provide information for the Commission and interested parties on the operations and earnings of San Diego Gas & Electric Company (SDG&E). This report is prepared in response to the utility's Application No. 59788, filed July 1, 1980, for a general rate increase for the Gas Department of 18.2 million or 5.42%. The application requests an 11.44% rate of return and a 14.5% return on common equity in the test year.
2. In Decision No. 90405, dated June 5, 1979, in Application No. 58067 (applicant's last general rate proceeding), the utility was granted a rate of return of 10.5% and a return on equity of 14.50% for test year 1979.

B - SCOPE OF REPORT

3. The report includes a summary of the utility's system gas operations for the test year 1981. Also included are chapters and analyses of operating revenues, expenses, taxes, utility plant and depreciation. Chapter 4, Chapter 5, and Chapter 6 on Balance Sheet, Income Statement, and Clearing Accounts will be covered separately in the Report on the Results of Examination of San Diego Gas & Electric Company. Chapter 18, Summary of Earnings, contains a comparison of the staff's and utility's estimates at present rates and at utility proposed rates, of net revenues, rate base, and the rate of return for the test year 1981.
4. Differences between the staff and the utility's estimates for test year 1981 are indicated in succeeding chapters of this report. The report also explains the reasons for these differences.
5. A comparison of the staff's and utility's estimated rates of return based on respective results of operation is as follows:

Rate of Return

	Present Rates	Proposed Rates
Item	1981	1981
Utility	3.44%	11.44%
Staff	6.96%	12.68%

1 - INTRODUCTION

6. In connection with the staff's presentation in this proceeding, the Utilities Division will present reports covering gas rate design and conservation. The Financial Analysis staff of the Revenue Requirements Division will also present reports on results of examination and rate of return.

7. Both the utility and the staff have developed estimates assuming a 9.5% wage increase for the year 1980 and 13.5% for test year 1981. For expenses other than labor, the staff and utility have used a 10% inflation rate for 1980 and 1981. Explanation of the staff's wage adjustment is contained in the general report.

8. Consistent with the Commission's recent decisions in general rate proceedings, staff's revenues and expenses exclude all direct PGA costs. The company's exhibit shows results both with and without PGA revenues and expenses.

9. All of the accounting adjustments contained in the Financial Analysis staff's "Report on the Results of Examination of San Diego Gas & Electric Company" have been utilized in developing the estimates contained in this report.

CHAPTER 2

HISTORY

1. The last previous detailed study of the Gas Department of the San Diego Gas & Electric Company was prepared by the staff in connection with Application No. 58067. This study covered results of operations for the test year 1979.

CHAPTER 3

PRESENT OPERATIONS

1. In the company's application is contained a description of corporate information. To the extent that the material in the utility's application is adequate for the purpose, it has not been duplicated in this report.

CHAPTER 4 - BALANCE SHEET ACCOUNTS
CHAPTER 5 - INCOME STATEMENT ACCOUNTS
CHAPTER 6 - CLEARING ACCOUNTS

FINANCIAL ANALYSIS AUDIT

1. An independent audit by the professional staff accountants of the Revenue Requirements Division, Financial Analysis Group, was conducted in conjunction with this rate proceeding. The staff accountants prepared a separate report on the results of this independent analysis of San Diego Gas & Electric Company and its subsidiary operations.
2. The staff accountants coordinated the audit recommendations discussed below with the staff engineers for consideration in the preparation of their test year estimates.
3. The "Report on the Results of Examination of San Diego Gas & Electric Company" contains the following recommendations made by the staff accountants.
 - A. Exclude \$9,250,970 from Account 105, Utility Plant Held for Future Use, relating to the two South Bay gas turbines for rate-making purposes.
 - B. Exclude \$151,179 of excessive Allowance for Funds Used During Construction (AFUDC) charged to Work Order No. 5071000 during the period October 1976 through August 1978 on SDG&E's books of account in Account 107, Construction Work in Progress.
 - C. Gains or losses resulting from the future sale of property in the amount of \$5,364,372 now recorded in Account 121, Non-Utility Property, which was previously recorded in Account 105, Utility Plant Held for Future Use, should be recorded "above the line" in Account 411.6, Gains From Disposition of Utility Plant, or Account 411.7, Losses From Disposition of Utility Plant.
 - D. SDG&E should not be allowed to recover through base rates \$596,755 representing the base rate component of lifeline refunds required due to the overcharging of lifeline customers in prior years.

4, 5 AND 6 - FINANCIAL ANALYSIS AUDIT

- E. Recognition should be given to the effects the Gas Meter Antitrust Litigation Refund of \$193,688 will have on the 1981 test year accumulated provision for depreciation of Gas Utility Plant.
- F. Goodwill and Educational Tours' recorded amounts of \$1,602 for 1978 and \$715 for 1979 should be excluded from operating expense for rate-making purposes.
- G. Dues, Donations and Contributions of \$5,691 (gas) and \$68,083 (electric) for 1978 and \$20,452 (gas) and \$106,700 (electric) for 1979 should be excluded from operating expense for rate-making purposes.
- H. Any effect on base rates resulting from the staff's investigation into the fuel oil exchange between SDG&E and United Petroleum Distributors should be deferred until SDG&E's 1982 test year filing.
- I. Electric Credits given to Applied Energy, Inc. for fuel should be calculated at the average system cost per megawatt-hour for steam generation only.
- J. The Kaiparawits coal reserve of \$4,009,920 on New Albion Resources Company's (NARCO) books should be amortized through EEDA to ECAC. NARCO began amortizing the Kaiparawits coal reserve project costs July 1, 1980.

CHAPTER 7

REVENUES

1. The company derives most of its revenues from the sale of natural gas to its customers. Some minor amounts are generated from miscellaneous sources, such as reconnection charges, property rents, and exhaust heat sales.

2. The staff has reviewed the company's sales estimating methodology and concludes that it provides fairly good sales estimates. The staff did not undertake its own analysis of sales trends because of the effect that the Supply Adjustment Mechanism (SAM) has in eliminating the necessity of estimating revenues from gas sales. The reason is that any volume of sales occurring in the test year which is under or over the adopted sales estimate will be debited or credited accordingly to the SAM balancing account, and the tariff rates will be adjusted accordingly in the following SAM offset.

3. The staff has performed its own study of the growth in customers and presents its estimates along with the utility estimates in Table 7-3. The difference between the staff and the utility estimates is due to differing estimating methodologies. The staff bases its estimates on the recorded relationship between customers and population within the county and county population estimates by the State Department of Finance, whereas the utility bases its estimates to the relative prices of gas and electricity, estimates of electric customers which rely heavily on interest rate projections, and estimates of building permits.

4. The company's methodology and assumptions used in estimating miscellaneous revenues are found to be reasonable and are adopted by the staff.

T A B L E 7-A
 SDGE---GAS DEPARTMENT
 COMPARISON OF REVENUES
 REVENUES AT PRESENT RATES
 TEST YEAR 1981

LN	ACCT.				UTIL. EXCEEDS STAFF	
NO	NO	ITEM	STAFF (A)	UTILITY (B) (THOUSANDS OF DOLLARS)	AMOUNT (C)	PCT (D)
1		RESIDENTIAL	\$ 36426.0	\$ 36426.0	\$ 0.0	0.0
2		NON-RESIDENTIAL	12775.0	12775.0	0.0	0.0
3		SUB-TOTAL	49201.0	49201.0	0.0	0.0
4		INTERDEPARTMENTAL	5676.0	5676.0	0.0	0.0
5		MISCELLANEOUS	1376.0	1376.0	0.0	0.0
6		TOTAL REVENUES	56253.0	56253.0	0.0	0.0

T A B L E 7-8
 SDGE----GAS DEPARTMENT
 COMPARISON OF REVENUES
 REVENUES AT PROPOSED RATES
 TEST YEAR 1981

LN	ACCT.				UTIL. EXCEEDS STAFF	
NO	NO	ITEM	STAFF (A)	UTILITY (B)	AMOUNT (C)	PCT (D)
			(THOUSANDS OF DOLLARS)			
1		RESIDENTIAL	\$ 39933.0	\$ 39933.0	\$ 0.0	0.0
2		NON-RESIDENTIAL	16261.0	16261.0	0.0	0.0
3		SUB-TOTAL	56194.0	56194.0	0.0	0.0
4		INTERDEPARTMENTAL	16863.0	16863.0	0.0	0.0
5		MISCELLANEOUS	1376.0	1376.0	0.0	0.0
6		TOTAL REVENUES	74433.0	74433.0	0.0	0.0

TABLE 7-C

San Diego Gas & Electric Company
Gas Department

AVERAGE CUSTOMERS

Test Year 1981

Class of Service	Staff	Utility	Utility Exceeds Staff	
			Amount	Percent
Residential	480,995	483,460	2,465	0.5
Nonresidential	28,665	29,112	447	1.6
Total	509,660	512,572	2,912	0.6

	TOTAL SALES (Thousands of Therms)			
Residential	355,675	355,675	-	-
Nonresidential	202,266	202,266	-	-
Total Sales to Customers	557,941	557,941	-	-
Interdepartmental Sales	223,749	223,749	-	-
Total Sales	781,690	781,690	-	-

CHAPTER 8

GAS SUPPLY EXPENSES

1. Gas supply expenses are costs associated with the procurement of natural gas. SDG&E purchases all of its gas from Southern California Gas Company (SoCal). Prior to August 4, 1979, SDG&E received liquefied natural gas (LNG) from Tioga Wells for injection into its LNG facility at Chula Vista. Since the company's contract for Tioga Wells LNG is terminated, due to insufficient gas reserves, that gas is not considered as a supply source for this rate case period.

2. The staff and utility both have made their gas supply expense estimates on a zero fuel basis, which means the gas purchase costs have been removed from the Gas Supply Accounts. "With the adoption of the Supply Adjustment Mechanism (SAM), effective October 15, 1978, any discrepancy between actual and adopted supply or sales levels will be remedied through SAM." (D-90405, dated 6/3/79, pg. 49). The above quote was taken from the decision on SDG&E's last general rate case. Therefore, the staff has adopted the company's gas supply estimates in this proceeding. The company's Table B-3, from its 1981 test year application filing entitled "Report on Operations and Summary of Earnings Gas Department", presents the estimated 1981 system gas requirements in M therms.

3. Table 8-A, in this chapter, presents a comparison of the staff and the utility's supply expense estimates that remain after zeroing the cost of gas.

4. Ac. 507, Purchased Gas Calculations Expenses, includes the cost of labor and expenses incurred in making calculations related to purchasing gas. The staff, after its review and performing its test of reasonableness, accepts the utility's estimate as reasonable.

8 - GAS SUPPLY EXPENSES

5. Ac. 810, Gas Used for Compressor Station Fuel, is a credit or negative figure. This credit is offsetting to the fuel component in Ac. 841 and all of Ac. 854. The utility's estimate was made assuming the remote LNG deliveries to the community of Alpine continuing as at the present. The staff's estimate recognizes the direct pipeline service Alpine will have around October of 1980. A six-inch diameter pipeline is currently under construction, an approximate four-mile extension, to provide pipeline natural gas to Alpine. This will eliminate the need to transport LNG from the utility's Chula Vista LNG Plant. The effects are to various accounts, one being the reduction to LNG plant fuel in Ac. 811.3 which changes the credit amount in Ac. 810.

6. Ac. 812, Gas Used for Other Utility Operations, is also a credit or negative figure. It offsets the cost of fuel used by other departments for space and water heating purposes. The staff has adopted the utility's estimate.

7. The staff and the utility have included a wage increase to the labor portion (Ac. 813) in their estimates. The staff's treatment of the 1981 estimated wage increase is stated in Chapter 1 of this report.

T A B L E 8-A
 SOGE----GAS DEPARTMENT
 GAS SUPPLY EXPENSES
 TEST YEAR 1981

LN	ACCT.				UTIL. EXCEEDS	
NO	NO	ITEM	STAFF	UTILITY	STAFF	
			(A)	(B)	AMOUNT	
					(C)	
			(THOUSANDS OF DOLLARS)			PCT
						(D)
1	807.00	PURCHASED GAS EXPENSES	\$ 86.6	\$ 86.6	\$ 0.0	0.0
2	810.00	GAS USED-COMPRESSOR FUEL	-851.7	-891.3	-39.6	4.6
3	812.00	GAS USED-OTHER OPERATIONS	-48.6	-48.6	0.0	0.0
4		GAS SUPPLY EXPENSES	-813.7	-853.3	-39.6	4.9
5		WAGE ADJ.	-1.5	0.0	1.5	-100.0
6		TOTAL LESS WAGE ADJUSTMENT	-815.2	-853.3	-33.1	4.7

CHAPTER 9

STORAGE EXPENSES

1. Storage expenses include the costs of operating and maintaining the utility's liquefied natural gas (LNG) facilities, including the satellite distribution storage facilities. Table 9-A shows a comparison between the staff and the utility's estimates. A summary of the total estimated storage expenses, excluding the staff's wage adjustment, for test year 1981 as estimated by the staff and utility is as follows:

Test Year 1981
(Dollars in Thousands)

<u>Item</u>	<u>Staff</u>	<u>Utility</u>
Storage Expenses	\$2,092.1	\$2,087.5

2. After reviewing the utility's operations and method of estimating the test year estimates, the staff performed a separate analysis on the reasonableness of the utility's estimates. Where appropriate, the staff made adjustments for the remote LNG deliveries to Alpine. See Chapter 8 on Gas Supply for discussion. The following paragraphs explain the differences, by account, between the staff and the utility estimates.

3. Ac. 340, Operation Supervision and Engineering, contains an additional man-year of labor for the 1981 test year as the difference between the staff and the utility's estimates. Staff's request on the utility's latest manpower requirements for 1981, as anticipated in its preceding 1981 budget, revealed this change from the utility's original estimates.

4. Ac. 341, Operation Labor and Expenses, contains adjustments for terminating LNG deliveries to Alpine in the staff estimate.

5. Ac. 343, Maintenance Supervision and Engineering, as estimated by the utility is found reasonable, with the exception of adding an electrician this year. Staff discussions with utility personnel revealed that the electrician's position scheduled for inclusion this year has been eliminated. The staff's estimate reflects the electrician being out for this forecast period.

6. The staff and the utility have included a wage increase to the labor portions in their estimates. The staff treatment of the 1981 estimated wage increase is stated in Chapter 1 of this report.

T A B L E 9-A
 SDGE----GAS DEPARTMENT
 STORAGE EXPENSES
 TEST YEAR 1981

LN	ACCT.				UTIL. EXCEEDS	
NO	NO	ITEM	STAFF	UTILITY	STAFF	
			(A)	(B)	AMOUNT	
					PCT	
			(THOUSANDS OF DOLLARS)			(D)
1		OPERATION -----				
2		LOCAL STORAGE EXPENSES				
3	840.00	OPER., SUPV. & ENGR.	\$ 235.8	\$ 203.1	\$ -32.7	-13.9
4	841.00	OPER. LABOR & EXP.	1341.5	1381.1	39.6	3.0
5		TOTAL GAS OPERATION EXP.	1577.3	1584.2	6.9	0.4
6		MAINTENANCE -----				
7		LOCAL STORAGE PLANT				
8	843.00	SUPV. & ENGR.	471.8	503.3	31.5	6.7
9		TOTAL GAS MAINT. EXPENSE	471.8	503.3	31.5	6.7
10		TOTAL GAS STORAGE EXPENSES	2049.1	2087.5	38.4	1.9
11		WAGE ADJ.	-18.0	0.0	18.0	-100.0
12		TOTAL AFTER WAGE ADJ	2031.1	2087.5	56.4	2.8

CHAPTER 10

TRANSMISSION EXPENSES

1. Transmission expenses include the operation and maintenance of gas transmission lines, compressor stations and measuring and regulating stations. Table 10-A presents a comparison between the staff and the utility's estimates for the 1981 test year. A summary of the total estimated transmission expenses, excluding the staff's wage adjustment, as estimated by the staff and the utility is as follows:

	Test Year 1981 (Dollars in Thousands)	
	<u>Staff</u>	<u>Utility</u>
Transmission Expenses	\$ 1,745.7	\$ 1,320.3

2. Staff reviewed the utility's operations and method of estimating its test year estimates. The staff performed a separate analysis on the reasonableness of the utility's estimates, and accepted those utility estimates in the accounts which were considered as reasonable. The following paragraphs explain the staff's position in the accounts where the staff's estimates are different than the utility's estimates. In all of the accounts, the staff had the first half 1980 recorded expenditures available for making its analysis. Some accounts had trends of the historical data, but most utilized the first half 1980 recorded expenses in arriving at an as-expected full year for 1980. The staff used the same escalation factors, labor and non-labor, as did the utility, in arriving at the staff's estimated 1981 test year expenditures from the 1980 as-expected.

3. The staff has made a wage adjustment for the 1981 utility estimated wage increase, consistent with the wage treatment as presented in Chapter 1 of this report.

4. For Ac. 350, Operation Supervision and Engineering, the staff applied the seasonal factor method, which consists of dividing the first half 1980 recorded expenditure figure by the sum of the monthly seasonal factors of January through June, to arrive at the full 1980 as-expected

10 - TRANSMISSION EXPENSES

figure. The 1980 as-expected figure was then escalated by the labor and non-labor factors. An amount representing the revised additional manpower level the utility foresees for the 1981 year of approximately 1-2/3 men years was added to the escalated 1981 figure, in arriving at the staff's estimated 1981 test year figure.

5. For Ac. 356, Mains Expenses, the staff's 1981 estimate is based on the trend of the 5-year recorded expenditures of 1975 through 1979. The seasonal factor method, applied to the first half 1980 recorded, was used as a check and came within \$1,000 of the trending method.

6. In Ac. 363, Maintenance of Mains, the staff's test year estimate consists of applying the seasonal factor method to the recorded adjusted first half 1980 figure in arriving at an expected full year 1980. The expected full year 1980 was then escalated by the 1981 labor and non-labor escalation factors, plus an amount representing the amortization of the unusual adjustment, in arriving at the staff's 1981 test year estimate. The unusual adjustment, \$117,900 to be amortized over 5 years, is for the additional maintenance work on the 16" and 30" lines resulting from storm damage during the last winter rains.

T A B L E 10-A
 SDGE----GAS DEPARTMENT
 TRANSMISSION EXPENSES
 TEST YEAR 1981

LN	ACCT.				UTIL. EXCEEDS	
NO	NO	ITEM	STAFF	UTILITY	STAFF	
			(A)	(B)	AMOUNT	
					PCT	
			(THOUSANDS OF DOLLARS)			(D)
1		OPERATION				
2	850.00	SUPV. & ENGR.	\$ 345.2	\$ 402.0	\$ 56.8	16.5
3	851.00	SYS. CONTR. & LOAD DISPATCH	89.7	89.7	0.0	0.0
4	852.00	COMMUNICATION SYSTEM EXP	6.9	6.9	0.0	0.0
5	853.00	COMP. STA. LABOR & EXP.	207.3	207.3	0.0	0.0
6	854.00	GAS FOR COMP. STA. FUEL	388.5	388.5	0.0	0.0
7	855.00	OTHER FUEL POWER COMP STA.	32.4	32.4	0.0	0.0
8	856.00	MAINS EXPENSE	240.8	251.6	10.8	4.5
9	857.00	MEAS. & REG. STA. EXP.	70.6	70.6	0.0	0.0
10	859.00	OTHER EXPENSES	66.8	66.8	0.0	0.0
11	860.00	RENTS	0.3	0.3	0.0	0.0
12		TOTAL OPER. EXPENSE	1448.5	1516.1	67.6	4.7
13		MAINTENANCE				
14	861.00	SUPV. & ENGR	69.2	69.2	0.0	0.0
15	862.00	STRUCT. & IMPROVE.	14.3	14.3	0.0	0.0
16	863.00	MAINS	68.1	75.6	7.5	11.0
17	864.00	COMP. STA. EQUIP.	135.0	135.0	0.0	0.0
18	865.00	MEAS. & REG. STA. EQUIP	10.5	10.5	0.0	0.0
19	867.00	OTHER EQUIP.	0.1	0.1	0.0	0.0
20		TOTAL MAINT. EXPENSE	297.2	304.7	7.5	2.5
21		TOTAL TRANSMISSION EXPENSES	1745.7	1820.8	75.1	4.3
22		WAGE ADJ.	-20.6	0.0	20.6	-100.0
23		TOTAL AFTER WAGE ADJ	1725.1	1820.8	95.7	5.5

CHAPTER 11

DISTRIBUTION EXPENSES

1. Distribution expenses include costs of operating and maintaining regulating stations, gas meters, maps and records of mains, service lines, buildings, equipment structures, gas dispatching, patrolling facilities, pilot relightings, and other. Table 11-A presents a comparison between the staff and the utility's estimates for the 1981 test year. A summary of the total estimated distribution expenses, excluding the staff's wage adjustment, as estimated by the staff and the utility is as follows:

Test Year 1981
(Dollars in Thousands)

	<u>Staff</u>	<u>Utility</u>
Distribution Expenses	310,743.8	311,484.8

2. The staff has reviewed the utility's operations and method of estimating its test year estimates. A separate analysis was made by the staff in determining the reasonableness of the utility's estimates. The staff has accepted those utility estimates in the accounts which were considered as reasonable. In accounts where the staff and the utility differ in their estimates, the following paragraphs explain the staff's method of determining its estimates. The staff had the first half 1980 recorded expenditures available in all of the accounts for review for analysis, and applied the seasonal factor method to most of the accounts in arriving at its 1981 test year estimates. The seasonal factor method consists of dividing the first half 1980 recorded expenditure figure by the sum of the monthly seasonal factors of January through June, to arrive at a full year 1980 as-expected figure. The 1980 as-expected figure is multiplied by the labor and non-labor factors for 1981 to arrive at a 1981 test year estimate.

3. The staff has made a wage adjustment for the 1981 utility estimates wage increase, consistent with the wage treatment as presented in Chapter 1 of this report.

4. For ac. 871, Operation Supervisor and Engineering, the staff's 1981 test year estimate consists of multiplying its as-expected 1980 estimate by the 1981 labor and non-labor escalation factors. The staff's 1980 as-expected figure was developed by taking the monthly average of the last ten months of recorded

11 - DISTRIBUTION EXPENSES

data, ending with July 1978, and indicating that monthly average by curve. The utility's 1981 estimate consists of escalating the labor and non-labor from the last date point, or from full recorded year 1979.

The staff's method is more representative of the current charges to this account. The utility has admitted that their gas field engineers were erroneously charging capital work to this expense account for most of 1979 and probably made the accounting correction during the third quarter of 1979. Therefore, the staff's procedure of utilizing the last quarter of 1979 and the first seven months of 1980 in determining a monthly average, to use for an as-expected 1980 estimate which is then escalated for 1981, is more reasonable than the utility's procedure.

In no. 874, Dams and Seawater, the staff's 1981 estimate consists of using the seasonal factor method for determining an as-expected 1979 figure which then is escalated to the test year. The staff and the utility have agreed to their estimates the escalations of the 1979 estimates which were included by both in the last general rate case, and the labor station for reviewing for an existing distribution system values.

For no. 875, Metering and Registering Expenses - General, the staff's 1981 estimate consists of using the seasonal factor method. The difference between the staff and the utility estimates is due to the labor increase the utility has included, as a result of more meter sets, the staff's estimate for the test year does not include an increase in labor for this account.

In no. 876, Meter and Fuse Replacement Expenses, the staff's test year estimate consists of using the seasonal factor method applied to the recorded 1979 data. There are account entries the cost of metering materials, changing or exchanging customer meters, and the increased metering in the District Staff Offices of 1980. However, there is no information to indicate an increase level in this account. In the last rate case, the metering on this account was covered on the separate meter 1979 through 1980's balance, and in 1979 the District 1979 meter did fail and were removed. The utility informed the staff that the separate 1980's meters have failed and are being removed in 1981. The staff are noting the failure and will probably be removed in 1981, and that the metering will be necessary on the 1980 and 1981 meters.

11 - DISTRIBUTION EXPENSES

9. For Ac. 379, Customer Installation Expenses, the staff's 1981 estimate consists of applying the seasonal factor method to the first half 1980 recorded, and escalating the as-expected 1980 to the test year. The utility has overstated its estimate for 1981. The utility's estimated growth in number of gas servicemen, since the time of the utility's application estimates, has been revised downward for the years 1980 and 1981. The staff's estimates reflect the downward shift in the number of servicemen.

10. In Ac. 380, Other expenses, the staff's test year estimate was developed by using the seasonal factor method applied to the recorded first half 1980 expenditures.

11. For Ac. 887, Maintenance of Mains, the difference between the staff and the utility estimates are due to the staff using more recent recorded data. The staff's 1981 estimate is based on the recorded first half of 1980. Staff applied the seasonal factor method to the recorded half year 1980 to arrive at an as-expected full year 1980. The escalation factors for labor and non-labor were applied to the 1980 as-expected figure in arriving at the staff's 1981 test year estimate.

12. For Ac. 889, Maintenance of Measuring and Regulating Station Equipment - General, the staff used the average of the last five years and the expected 1980 in arriving at its 1981 test year figure. The utility's estimate includes additional labor, whereas due to later data the staff's estimate does not.

13. In Ac. 890, Maintenance of Services, the staff's test year estimate was developed by using the seasonal factor method applied to the recorded first half 1980 expenditures and the escalation of the as-expected 1980 figure.

14. In Ac. 891, Maintenance of Meters and Home Regulators, the staff's estimate for 1981 is based on the average cost of meters changed out during the first half year of 1980 applied to the estimated meter work load for 1981. The staff's estimating method was utilized because of the increased activity in this area, see discussion on the Aggregate Meter Services in paragraph 9 of this chapter. Also, the increase in the number of changed out meters is reflected by the following:

	Recorded			Utility Estimate	
	1979	1980	1980	1981	1981
Meter Change Out	4,824	5,333	7,377	12,111	12,111

The staff developed its cost per meter by dividing the half year 1980 recorded figure of 7,377 into the recorded expenditure figure for the first half year.

T A B L E 11-A
 SDGE----GAS DEPARTMENT
 DISTRIBUTION EXPENSES
 TEST YEAR 1981

LN	ACCT.				UTIL. EXCEEDS STAFF	
NO	NO	ITEM	STAFF (A)	UTILITY (B) (THOUSANDS OF DOLLARS)	AMOUNT (C)	PCT (D)
1		OPERATION				
2	870.00	SUPV. & ENGR	\$ 430.4	\$ 684.8	\$ 254.4	59.1
3	871.00	DISTR. LOAD DISPATCH.	91.4	91.4	0.0	0.0
4	874.00	MAINS & SERV. EXP.	728.2	747.9	19.7	2.7
5	875.00	MEAS. & REG. STA. EXP. - GENERAL	102.7	148.6	45.9	44.7
6	878.00	METER AND HOUSE REG EXP	1807.6	1766.1	-41.5	.3
7	879.00	CUSTOMER INSTALL EXP	3812.3	4100.4	288.1	7.6
8	880.00	OTHER EXPENSE	794.4	849.5	55.1	6.9
9	881.00	RENTS	7.4	7.4	0.0	0.0
10		TOTAL DIST. OPER EXP.	<u>7774.4</u>	<u>6396.1</u>	<u>621.7</u>	<u>8.0</u>
11		MAINTENANCE				
12	885.00	SUPV. & ENGR.	178.6	178.6	0.0	0.0
13	886.00	STRUC. & IMPROVE.	0.6	0.6	0.0	0.0
14	887.00	MAINS-LEAK CLAMPS	1413.4	1521.0	107.6	7.6
15	889.00	MEAS. & REG. STA. EQUIP. GEN.	15.6	38.8	23.2	148.7
16	892.00	SERVICES	420.6	548.9	128.3	30.5
17	893.00	METERS	936.0	796.7	-139.3	-14.9
18	894.00	OTHER EQUIP.	4.1	4.1	0.0	0.0
19		TOTAL DIST. MAINT. EXP.	<u>2968.9</u>	<u>3088.7</u>	<u>119.8</u>	<u>4.0</u>
20		TOTAL DISTRI. EXPENSES	<u>10743.3</u>	<u>11484.8</u>	<u>741.5</u>	<u>6.9</u>
21		WAGE ADJ.	-173.6	0.0	173.6	-100.0
22		DISTRIBUTION EXP - ADJ.	<u>10569.7</u>	<u>11484.8</u>	<u>915.1</u>	<u>8.7</u>

CHAPTER 12

CUSTOMER ACCOUNTS EXPENSES

1. A summary of customer accounts expenses is shown below:

:	Staff :	Utility :	:Utility Exceeds Staff:	
			Amount :	Percent :
(Dollars in Thousands)				
	35,892.3	\$6,209.2	3316.4	5.4%

General

2. The costs of customer accounts include the handling of customer inquiries, credit, collections, billing and bookkeeping data processing charges, postage, uncollectibles and supervision of these activities.

Cost History and Estimates

3. Costs per customer for the total of customer accounts, gas and electric are:

:	(19798)	Year					:
		1975	1976	1977	1978	1979	
Staff Estimate	\$13.33	\$13.46	\$12.78	\$12.13	\$11.91	\$11.72	
Utility Estimate	13.33	13.46	12.78	12.13	11.91	12.04	

The decline in cost per customer is generally due to greater utilization of existing capacity.

Estimating Methods

4. All company estimates, with the exception of postage and uncollectibles, are based on the 12-month recorded cost as of December 31, 1979, increased by the ratio of average customers' forecasts for 1981 to those recorded for 1979. These amounts were then adjusted for a wage increase of 9.5% for 1980 and 13.5% for 1981. No increase was taken into consideration for non-labor costs, other than the growth in number of customers.

12 - CUSTOMER ACCOUNTS EXPENSES

5. The staff analyzed the history of cost per customer from 1975 through 1979. The trend of adjusted costs per customer of most accounts is generally downward, due mostly to the spreading of fixed costs over the greater number of customers.

Staff Analysis

6. In Ac. 901 (Supervision Expenses) the staff estimate is based on the history of the costs per customer. The decline in adjusted cost in the labor portion shows improvement in productivity. The staff expects the trend to continue and the 1981 test year estimate is adjusted for a wage increase.

7. Ac. 903.2 (Credit Management Expenses) includes the cost of establishing the company credit policy and collection of all monies owed the company. The promotion of better labor management has caused the decrease in cost.

8. Ac. 903.3 (Collections Expenses) includes investigation of customer's credit, originating requests for refunding, preparation of delinquent notices, final meter reading of delinquent accounts, disconnection of services because of unpaid bills and collection on past-due accounts. The staff observed a decline in labor cost per customer from 1975 to 1979 and based its estimate on this trend. The staff used a five-year average of costs per customer as a basis for its non-labor estimate.

9. Ac. 903.5 (Billing and Bookkeeping Expenses) includes file maintenance, manual review and calculation of certain bills, meter deposits, taxes and micro-filming. The company failed to consider the importance of cost savings. The staff anticipated further savings as the costs per customer continue to decrease.

10. In Ac. 903.7 (Postage Expenses) the company's estimate allows for an increase from 13¢ to 18¢ for presort and from 15¢ to 20¢ for first class. The staff recommends that the increase in postal rate not be included until the general rate increase is approved by the Postal Rate Commission and the U.S. Congress. The impact of the staff's adjustment is a test year estimate of \$556,200, which is \$196,200 lower than the utility's estimate. The following is a schedule of postage increases and their impacts.

12 - CUSTOMER ACCOUNTS EXPENSES

: Present Postage : Percent Increase : Total Account 903.T :

13	0.00%	\$556,200
14	7.69	599,000
15	15.38	641,700
16	23.08	684,600
17	30.08	723,500
18	38.46	770,100
19	46.15	812,900
20	53.85	855,700

11. Ac. 904 (Uncollectible Accounts Expenses) is an account charged with amounts sufficient to provide for losses from uncollectible utility revenues. The staff adopts the utility's percentage of loss of 0.150% for test year 1961. However, the staff disagreed with the utility's approach in calculating the uncollectible expenses. In the Electric Department, the staff removed miscellaneous and off-system sales revenues from total revenues in its calculation. In the Gas Department, interdepartmental and miscellaneous revenues were taken out.

12. Based on staff reviews of the history of the costs and expected operations of all other accounts, the company's estimate appears to be reasonable and is adopted for purposes of this proceeding.

T A B L E 12-A
 SDGE----GAS DEPARTMENT
 CUSTOMER ACCOUNTS EXPENSES
 GAS DEPARTMENT
 TEST YEAR 1991

LN	ACCT.				UTIL. EXCEEDS	
NO	NO	ITEM	STAFF (A)	UTILITY (B) (THOUSANDS OF DOLLARS)	AMOUNT (C)	STAFF PCT (D)
1	901.00	SUPERVISION	\$ 109.2	\$ 112.1	\$ 2.9	2.7
2	902.00	METER READING	1179.0	1179.0	0.0	0.0
3		CUSTOMER RECORDS AND CGL.				
4	903.10	CUSTOMER SERVICE	1757.5	1757.5	0.0	0.0
5	903.20	CREDIT MANAGEMENT	79.8	82.6	2.8	3.5
6	903.30	COLLECTIONS	596.2	603.9	7.7	1.3
7	903.40	CUSTOMER PAYMENTS	359.2	359.2	0.0	0.0
8	903.50	BILLING & BOOKKEEPING	477.6	502.3	24.7	5.2
9	903.60	DATA PROCESSING	760.9	760.9	0.0	0.0
10	903.70	POSTAGE	556.2	752.4	196.2	35.3
11		TOTAL CUSTOMER REC. AND COL	4587.4	4818.3	231.4	5.0
12	904.00	UNCOLLECTIBLE ACCT.	73.8	82.3	8.5	11.5
13	905.00	MISC. CUST. ACCT. EXP.	17.0	17.0	0.0	0.0
14		SUBTOTAL CUSTOMER ACCT	5966.4	6209.2	242.8	4.1
15		WAGE ADJ.	-73.6	0.0	73.6	-100.0
16		TOTAL CUSTOMER ACCT. EXP.	5892.8	6209.2	316.4	5.4

***** AT PROPOSED RATES *****

17	904.00	UNCOLLECTIBLE ACCT.	84.3	110.1	25.8	30.6
18		SUBTOTAL CUSTOMER ACCT	5976.9	6237.0	260.1	4.4

CHAPTER 13

MARKET SERVICE EXPENSES - GAS DEPARTMENT
(CONSERVATION)

1. These expenses include activities which encourage conservation and load reduction. They are the supervision, labor and administrative (ancillary) expenses of central staff and field personnel. They plan, implement and monitor the various programs. Also included are the expenses for advertising and related collateral material, such as bill stuffers, printing of pamphlets and publication and dissemination of various conservation related material.
2. The staff's Conservation Branch evaluated the reasonableness of SDG&E's programs. A separate report published the staff's conclusions, recommendations and adjustments.
3. Table 13-A is a comparison of the utility's and staff's test year 1981 expense estimates, by the uniform system standard account number.
4. A comparison of total expenses is:

<u>Item</u>	<u>Test Year 1981</u>	
	<u>Staff</u>	<u>Utility</u>
Total Expenses	\$3,700.7	\$4,433.0

(Dollars in Thousands)

13 - MARKET SERVICE EXPENSES - GAS DEPARTMENT
(CONSERVATION)

5. In order that the Commission and interested parties can have a better understanding of how SDG&E's conservation estimates relate to other California utilities, the staff has prepared the following table.

COMPARISON OF 1981 TEST YEAR CONSERVATION
EXPENSES INCLUDING LOAD MANAGEMENT^{1/}

	<u>Gas</u>			<u>Electric</u>		
	\$/cust.	¢/therm	¢/therm over life- line	\$/cust.	¢/kWh	¢/kWh over lifeline
So. Cal Gas						
Staff	8.16	.34	.43			
Utility	10.08	.42	.53			
So. Cal Ed.						
Staff & Utility				12.12	.60	.71
SDG&E						
Staff	7.26	.47	.72	11.69	.85	1.08
Utility	8.70	.57	.86	18.66	1.36	1.73
PG&E ^{2/}	5.99	.23	.29	14.22	.78	.94

^{1/} All estimates are from the staff Results of Operation reports. To be on a comparative basis, staff customers and sales estimates were used.

^{2/} Test Year 1980 per Decision No. 91107.

13 - MARKET SERVICE EXPENSES - GAS DEPARTMENT
(CONSERVATION)

6. The following table lists the utility's estimated advertising expenses which are included in the 1981 test year. In order to allocate between departments, both the staff and utility have assigned approximately 75% of the conservation expenses to electric and the remainder to gas. All load management expenses are assigned to the Electric Department.

1981 ESTIMATED ADVERTISING EXPENSE

	<u>Conservation</u>	<u>Load Management</u>	<u>Total</u>
(1) Radio	367,000	13,000	380,000
(2) Television	330,000	47,000	377,000
(3) Newspaper	504,000	130,000	634,000
(4) Pamphlets	1,780,500	15,000	1,795,500
(5) Miscellaneous (includes marketing, response envelopes, trade journals, magazine, transit, outdoor billboards, agency fee, development, etc.)	517,000	26,000	543,000
(6) Total	<u>3,498,500</u>	<u>231,000</u>	<u>3,729,500</u>

T A B L E 13-A
 SDGE----GAS DEPARTMENT
 MARKETING EXPENSES
 TEST YEAR 1981

LN	ACCT.				UTIL. EXCEEDS STAFF	
NO	NO	ITEM	STAFF (A)	UTILITY (B) (THOUSANDS OF DOLLARS)	AMOUNT (C)	PCT (D)
1	907.00	SUPERVISION	\$ 84.9	\$ 93.6	\$ 8.7	10.2
2	908.00	CUSTOMER ASSISTANCE	3082.9	3619.6	536.7	17.4
3	909.00	INFOR.-INSTRUC.ADV.EXP.	263.1	449.8	186.7	71.0
4	910.00	MISC.CUST. SERV.INFO.EXP.	269.8	270.0	0.2	0.1
5		MARKETING EXPENSES	3700.7	4433.0	732.3	19.8
6		WAGE ADJ.	0.0	0.0	0.0	0.0
7		TOTAL AFTER WAGE ADJ	3700.7	4433.0	732.3	19.8

CHAPTER 14

ADMINISTRATIVE AND GENERAL EXPENSES - GAS

1. The staff's estimate of the Gas Department's administrative and general expenses is the result of evaluation of many general office departments in the San Diego Gas & Electric Company. This evaluation included analysis of the trends of current departmental expenses and the engineering economics of customers and growth on administrative and general expenses.
2. The comparable figures for total gas administrative and general expense for test year 1981 are as follows:

Item	: Staff :	: Utility :
	(Dollars in Thousands)	
Total A&G Expense	\$9,949.4	\$10,516.3

3. Table 14-A represents the total direct and indirect, as estimated by both the staff and the utility, administrative and general expenses for the Gas Department. Both the staff and the utility have included wage increases in their estimates relative to the administrative and general expense labor items. The staff's treatment of the 1981 estimated wage increase is stated in Chapter 1 of this report.
4. Differences between the staff and utility estimates of direct gas expenses are due to different estimating methods and specific adjustments as explained in the General Report, Chapter 2.
5. Adjustments to research and development are covered in General Report, Chapter 2.

T A B L E 14-A
 SDGE----GAS DEPARTMENT
 ADMINISTRATIVE & GENERAL EXPENSES
 TEST YEAR 1981

LN	ACCT.				UTIL. EXCEEDS	
NO	NO	ITEM	STAFF	UTILITY	STAFF	
			(A)	(B)	AMOUNT	
				(THOUSANDS OF DOLLARS)	(C)	
					PCT	
					(D)	
1		AT PRESENT RATES				
2	920.00	ADMINISTA.& GENER.SALARIES	\$ 3809.8	\$ 3810.9	\$ 1.1	0.0
3	921.00	OFFICE SUPPLIES & EXPENSES	2123.9	2124.8	0.9	0.0
4	922.00	ADM. EXP. TRANSF.	-3015.4	-2787.6	227.8	-7.6
5	923.00	OUTSIDE SERV. EMPLOY.	312.4	312.4	0.0	0.0
6	924.00	PROPERTY INSURANCE	80.0	83.4	3.4	4.3
7	925.00	INJURIES & DAMAGES	323.0	323.4	0.4	0.1
8	926.00	EMPLOY. PENSION & BENEFITS	4862.0	4961.0	99.0	2.0
9	927.00	FRANCHISE REQUIREMENTS	1311.0	1311.0	0.0	0.0
10	928.00	REGULATORY COMM EXPENSES	282.8	282.8	0.0	0.0
11	930.00	MISCELLANEOUS GENERAL EXP	619.4	659.2	39.8	6.4
12	931.00	RENTS	237.4	256.8	19.4	8.2
13	932.00	MAINT.OF GENERAL PLANT	391.4	489.2	97.8	25.0
14		TOTAL A&G EXPENSES	11337.7	11827.3	489.6	4.3
15		WAGE ADJ.	-139.0	0.0	139.0	-100.0
16		TOTAL AFTER WAGE ADJ	11198.7	11827.3	628.6	5.6
***** AT PROPOSED RATES *****						
17	927.00	FRANCHISE REQUIREMENTS	1744.7	1744.7	0.0	0.0
18		TOTAL A&G EXPENSES	11771.4	12261.0	489.6	4.2

CHAPTER 15

INCOME TAXES

Introduction

1. This section presents the staff's computation of income tax expense for rate-making purposes based upon the test year results of operations for San Diego Gas & Electric Company's Gas Department.

2. In OIR-24, this Commission has under investigation the methods to be utilized in establishing the proper level of income tax expense for rate-making purposes; many of the tax issues inherent in this proceeding will be addressed in OII-24. To the extent such issues have been deferred to OII-24 in prior rate cases, they have not been included in this staff presentation.

3. The following paragraphs describe the various line items which constitute the adjustments used for determining taxable income and explain the differences between the company's and staff's estimates.

Interest on Long-Term Debt

4. In Decision No. 77975, dated November 24, 1970, in response to Southern California Gas Company's General Rate Application No. 51567, this Commission stated:

"The staff's use of a year-end composite interest rate for combined short-term and long-term debt to determine test year interest deductions for the calculation of taxes based on income is consistent with rate of return studies which involve in effect applying year-end capital cost rates with weighted average capital during the test year, in view of the relationship of such capital to rate base and the fact that the revenue requirement on which rates are to be based is, in part, the product of a rate of return and a weighted average rate base. In concept, the staff approach tends to bring income taxes and rate of return, as elements of the total cost of service or revenue requirement, into synchronization."

5. In the current rate case, the staff's rate of return witness is recommending the usage of an average of the beginning and end-of-year capital structure and embedded debt costs. In conformity with the rationale stated in Decision No. 77975 of bringing income taxes and rate of return into synchronization, the average embedded debt cost as recommended by the rate of return witness has been multiplied by the average debt outstanding to arrive at the interest deduction for income tax purposes.

6. The computed amount of interest expense has been apportioned by the staff between departments on the basis of each department's net plant balance to the total. The apportioned interest expense has then been reduced by the amount expected to be charged as AFUDC on construction work in progress in the test year.

Tax Basis Depreciation

7. The tax depreciation has been computed using the shortest lives and fastest methods allowed by the Internal Revenue Code and California Corporation Franchise Tax Law.

Removal Cost

8. Removal cost represents the current deduction of the costs of dismantling, demolishing or removing certain assets in the process of retirement. There is no difference between the staff and utility estimates.

Administrative and General Costs, Payroll Taxes, Pension and Benefits Capitalized

9. For income tax purposes, certain pension and benefit and administrative and general costs, which are capitalized for rate-making purposes as a part of constructed plant, can be deducted currently. This adjustment recognizes the amount estimated to be capitalized in the test year. The staff figure is a summation of the staff payroll tax and pension and benefit witness' estimates of the amount of these expenses which will be capitalized for rate-making purposes. The staff estimate is computed thusly:

Administrative and General	\$ 965,000
Pension and Benefits	2,050,400
Capitalized Payroll Taxes	<u>143,000</u>
Total (rounded)	3,158,000

Ad Valorem Tax Capitalized

10. That portion of ad valorem tax which is capitalized for rate-making purposes is claimed as a current year deduction for income tax purposes. This adjustment reflects the staff's ad valorem witness estimate of that amount.

Use Tax Capitalized

11. This adjustment recognizes the estimated amount of use tax to be incurred which will be capitalized for rate-fixing purposes but expensed for income tax purposes. There is no difference between staff and company estimates.

Contributions for Service Fees (Service Connection Fees)

12. Internal Revenue Code Section 118, as revised by the Revenue Act of 1978, excludes from taxable income all contributions in aid of construction, except service connection fees; the staff and company estimates of the amount taxable in the test year are the same.

Repair Allowance

13. The repair allowance is an annual election available to the taxpayer under Internal Revenue Service regulations. Under this election, certain expenditures for the repair, maintenance, rehabilitation or improvement of property that have been capitalized for book purposes may be treated as currently deductible repairs to the extent they do not exceed the repair allowance prescribed by the regulations. There is no difference between the staff and utility estimates.

Preferred Dividend Deduction

14. This is a special deduction for utilities and is deductible for federal tax purposes only. It is based on a certain percentage of preferred dividends paid on preferred stock issued prior to 1943. The company will be able to claim \$594,000 in 1981, which the staff apportioned on the same basis as it did interest expense.

Fiscal/Calendar Adjustment of Ad Valorem Taxes

15. A utility may, for income tax purposes, deduct in the current year the full amount of ad valorem taxes due on property held as of March 1, despite the fact that one-half of the amount is not payable until the following year. For book and rate-making purposes, utilities record ad valorem taxes on a calendar year basis. The staff figure was developed from information provided by the staff ad valorem tax witness.

Investment Tax Credit (ITC)

16. The Commission, in D-90405, issued in response to A-58067, et al. on June 5, 1979, adopted the same treatment as it did in D-89857, wherein it said:

"By Decision No. 89048 dated June 27, 1978, the Commission granted limited rehearing as to the issue of proper treatment of income taxes in Decision No. 88697 in Applications Nos. 55627, 55628, and 55629 to be consolidated with the hearings in Application No. 58067. Both the staff and SDG&E offered testimony and exhibits as to the appropriate method for calculating investment tax credits to be used for rate-making purposes. SDG&E's tax witness Miller testified that flow-through of Investment Tax Credit (ITC) earned under the 1971 Revenue Act at a rate greater than 50 percent violates IRS Code Sections 46f(2) and (8) and Temporary Regulation Section 9.1 thereby jeopardizing the additional investment tax credits available under the Tax Reduction Act of 1975.

"The staff witness examined the IRS code provisions upon which SDG&E relied to support its position and did not agree that the language therein clearly and convincingly demonstrated the interpretation of law that SDG&E set forth. Accordingly, for the purposes of this decision, ITC will be limited to 50 percent of the tax liability plus the rateable flow-through of the excess ITC generated by the 1975 Tax Reduction Act. Income tax expense computed with this limitation will be made subject to refund pending final resolution of this issue."

17. On September 18, 1978, the company requested a ruling from the IRS, wherein it asked (among other things):

"Whether the additional credit allowed by reason of the Tax Reduction Act of 1975 includes any additional credit allowable because of the increase in the limitation based on tax under Section 46(a)(7) (from 50% to, among other rates, 100% for 1976 and 70% for 1979). To avoid possible misunderstanding, your ruling is also requested on the increase in the amount of the credit under Section 46(a)(2)."^{1/}

18. On January 17, 1980, the IRS responded thusly:

"The additional ITC allowed by reason of the 1975 Act (which under the company's 1975 election of ratable flow-through must be accounted for in the manner described in Section 46(f)(2) of the Code) includes an amount of additional ITC earned for limited property, allowed by reason of the increase in the amount of ITC under Section 46(a)(2) and the increase in the limitation based on tax under Section 46(a)(7), that results from the computation described in Section 9.1(a)(3)(i) of the temporary regulations."

ITC Currently Flowed Through

19. The staff recommends flowing through the lesser of:
- A. fifty percent of the estimated test year tax liability; or
 - B. the amount of ITC not covered by San Diego's option II election which is expected to be generated in the test year, plus that position of previous years' credit not covered by the company's option II election, but not flowed through, because of the previously discussed 50% limitation. (The staff's analysis of D-87639 and D-90405 indicates that all previous years' ITC not covered by the company's option II election has been previously flowed through in reduced rates.)

^{1/} Section 46(a)(2) increased the amount of credit from 7% to 10% (4% to 10% for public utilities); Section 46(a)(7) increased the amount of federal income tax which could be offset by the ITC from 50% to percentages which varied by year but which were greater than 50%.

ITC Ratably Flowed Through

20. IRS regulation 1.46-6(g)(2) explains how to compute the amount of ITC which is to be flowed through under the company's option II (ratable flow through) election. It says, in part:

"What is 'ratable' is determined by considering the period of time actually used in computing the taxpayer's regulated depreciation expense for the property for which a credit is allowed. 'Regulated depreciation expense' is the depreciation expense for the property used by a regulatory body for purposes of establishing the taxpayer's cost of service for ratemaking purposes. Such period of time shall be expressed in units of years (or shorter periods), units of production, or machine hours and shall be determined in accordance with the individual useful life system or composite (or other group asset) account system actually used in computing the taxpayer's regulated depreciation expense."

21. The staff's interpretation of the phrase, "...actually used in computing the taxpayer's regulated depreciation expense", is that the company's option II ITC is to be flowed through over the rate-making service lines of every asset class which actually generates the credit. For example, if the company generates \$1 million of credit from the installation of new gas distribution mains, which has a rate-making service life of 43 years, the company should flow through 1/43 of the credit in each of the 43 years.

22. The company contends that it does not generate the accounting information required to use this methodology. It proposes, instead, to flow through the credit over the average rate-making service lines of all properties put in service in each year.

23. The staff finds two faults with the company methodology:

- A. Because of the lack of strict adherence to the IRS regulations, San Diego is, to a limited degree, risking its eligibility to claim the ITC covered by its option II election.
- B. Because different classes of property have different rate-making service lines, the staff's (and IRS's) methodology achieves a balance between the ratepayers paying for the property (through depreciation expense) and the company's flowing through the related ITC. The company's methodology, however, flows through a levelized amount of ITC over the properties' average service lines.

24. The staff recommends that the Commission order the company to implement accounting proceedings which permit flowing through the company's option II ITC in accordance with the staff's and IRS's methodology for plant placed in service in 1981 and years thereafter, and that the company's methodology be used for the option II ITC generated in years prior to 1981.

Graduated Rate Benefit

The "Graduated Rate Benefit" recognizes the fact that the first \$100,000 of corporate taxable income is taxed at various step rates which are less than the 46% rate which is applicable to taxable income in excess of \$100,000. The staff apportioned the "benefit" on the same basis as interest expense.

T A B L E 15-A
 SOGE----GAS DEPARTMENT
 SUMMARY OF TAXES
 TEST YEAR 1981

LN	ACCT.		STAFF	UTILITY	UTIL. EXCEEDS	
NO	NO	ITEM	(A)	(B)	STAFF	PCT
				(THOUSANDS OF DOLLARS)	AMOUNT	(D)
					(C)	
1		AD VALOREM TAXES	\$ 1591.0	\$ 2670.0	\$ 1079.0	67.8
		OTHER TAXES				
2		FED INSURANCE ACT (FICA)	918.0	918.0	0.0	0.0
3		FEDERAL UNEMPLOYMENT (FUI)	28.0	28.0	0.0	0.0
4		CALIF UNEMPLOYMENT (SUI)	110.0	110.0	0.0	0.0
5		MISCELLANEOUS	2.0	2.0	0.0	0.0
6		WAGE ADJ	0.0	0.0	0.0	0.0
7		TOTAL OTHER TAXES	1058.0	1058.0	0.0	0.0
8		TOTAL NON-INCOME TAXES	2649.0	3728.0	1079.0	40.7
		PRESENT RATES				
9		CALIF. CORP FRANCHISE TAX	0.0	257.0	257.0	0.0
10		FEDERAL CORP INCOME TAX	-341.2	1282.0	1623.2	-475.7
11		TOTAL INCOME TAXES	-341.2	1539.0	1880.2	-551.1
12		TOTAL TAXES	2307.8	5267.0	2959.2	128.2
		PROPOSED RATES				
13		CALIF CORP FRANCHISE TAX	1693.6	1365.0	-328.6	-19.4
14		FEDERAL CORP INCOME TAX	6574.2	5237.0	-1337.2	-20.3
15		TOTAL INCOME TAXES	8267.8	6602.0	-1665.8	-20.1
16		TOTAL TAXES	10916.8	10330.0	-586.8	-5.4

T A B L E 15-8
 SDGE----GAS DEPARTMENT
 TAXES BASED ON INCOME
 TEST YEAR 1981

LN NO.	ITEM	PRESENT RATES		UTILITY PROPOSED RATES	
		CCFT (A)	FIT (B)	CCFT (C)	FIT (D)
		(THOUSANDS OF DOLLARS)			
1	OPERATING REVENUES	\$ 56253.0	\$ 56253.0	\$ 74433.0	74433.0
2	O + M EXPENSES	34302.9	34302.9	34747.1	34747.1
3	TAXES OTHER THAN INCOME	2649.0	2649.0	2649.0	2649.0
4	CCFT	0.0	0.0	0.0	1693.6
5	SUBTOTAL	<u>36951.9</u>	<u>36951.9</u>	<u>37396.1</u>	<u>39089.7</u>
6	DEDUCTIONS FROM TAXABLE INCOME				
7	TAX DEPRECIATION	7625.0	7999.0	7625.0	7999.0
8	INTEREST CHARGES	7831.0	7831.0	7831.0	7831.0
9	BENEFITS CAPITALIZED	3158.0	3158.0	3158.0	3158.0
10	AD-VALOREM TAXES	0.0	0.0	0.0	0.0
11	REMOVAL COST	322.0	322.0	322.0	322.0
12	REPAIR ALLOWANCE	508.0	508.0	508.0	508.0
13	PREFERRED DIV CREDIT	0.0	63.0	0.0	63.0
14	USE TAX	281.0	281.0	281.0	281.0
15	TAXABLE CIAC	-327.0	-327.0	-327.0	-327.0
16	FISCAL/CALENDAR ADJ.	56.0	56.0	56.0	56.0
17	OTHER DEDUCTIONS	<u>-59.0</u>	<u>-59.0</u>	<u>-59.0</u>	<u>-59.0</u>
18	SUBTOTAL DEDUCTIONS	<u>19395.0</u>	<u>19832.0</u>	<u>19395.0</u>	<u>19832.0</u>
19	NET TAXABLE INCOME FOR CCFT	-93.9		17641.9	
20	CCFT	<u>0.0</u>		<u>1693.6</u>	
21	TOTAL CCFT	0.0		1693.6	
22	NET TAXABLE INCOME FOR FIT		-530.9		15511.3
23	FEDERAL INCOME TAX		-244.2		7135.2
24	DEFERRED TAXES-DEPR.		-12.0		-12.0
25	COMP. ADJ. FACTOR		0.0		0.0
26	GRADUATED RATE BENEFIT		-2.0		-2.0
27	ITC NORMALIZED		<u>-83.0</u>		<u>-83.0</u>
28	FED INCOME TAX BEFORE ADJ.		-341.2		7038.2
29	ITC FLOWTHROUGH		<u>0.0</u>		<u>-464.0</u>
30	TOTAL FIT		-341.2		6574.2

T A B L E 15-C
 SDGE----GAS DEPARTMENT
 DEDUCTIONS FOR TAX CALCULATIONS
 TEST YEAR 1981

LN	ACCT.				UTIL. EXCEEDS	
NO	NO	ITEM	STAFF	UTILITY	AMOUNT	STAFF
			(A)	(B)	(C)	PCT
			(THOUSANDS OF DOLLARS)			
		TAX DEPRECIATION				
1		STATE	\$ 7625.0	\$ 7674.0	\$ 49.0	0.6
2		FEDERAL	7999.0	8002.0	3.0	0.0
3		INTEREST CHARGES	7831.0	8621.0	790.0	10.1
4		BENEFITS CAPITALIZED	3158.0	1857.0	-1301.0	-41.2
5		AD-VALOREM TAXES	0.0	140.0	140.0	0.0
6		REMOVAL COST	322.0	322.0	0.0	0.0
7		REPAIR ALLOWANCE	508.0	508.0	0.0	0.0
8		PREFERRED DIV CREDIT	63.0	64.0	1.0	1.6
9		USE TAX	281.0	281.0	0.0	0.0
10		TAXABLE CIAC	-327.0	-327.0	0.0	0.0
11		FISCAL/CALENDAR	56.0	0.0	-56.0	-100.0
12		OTHER DEDUCTIONS	-59.0	-59.0	0.0	0.0
		INVESTMENT TAX CREDIT				
13		FLOWTHROUGH	-464.0	-464.0	0.0	0.0
14		NORMALIZED	-83.0	-14.0	69.0	-83.1
15		DEFERRED TAXES-DEPR.	-12.0	-12.0	0.0	0.0
16		COMP. ADJ. FACTOR	0.0	-5.0	-5.0	0.0
17		GRADUATED RATE BENEFIT	-2.0	0.0	2.0	-100.0

CHAPTER 16

GAS PLANT

1. This chapter contains the development of the staff estimates of total weighted average gas plant for San Diego Gas and Electric Company for test year 1981. Tables 16-A and 16-B compare the staff and utility gas plant estimates for test year 1981. A summarization of the total weighted average plant as estimated by the staff and utility is as follows:

Test Year 1981
(Table 16-B)
(Dollars in Thousands)

	<u>Staff</u>	<u>Utility</u>
Gas Plant	\$262,720	\$262,938

2. The staff estimates are based on the results of field inspections of the utility's facilities, discussions, with utility personnel responsible for the construction budgets, analysis of utility's workpapers, and a detailed review of the utility's construction budgets for the years 1980 and 1981.

3. The staff estimates of plant in service reflect the recorded plant in service at the beginning of year 1980, the staff's estimated plant additions for year 1980, and the staff's weighted average plant additions for test year 1981.

4. Utility's gas plant includes: gas production and storage facilities, gas transmission and gas distribution. The additions to plant are due to 11 blanket projects and other projects necessary to maintain compliance with codes and efficient operation. Staff reviewed these additions and gave consideration to past expenditure levels and concluded that the utility's estimates, except for the following difference, are reasonable.

5. Staff is lower than the utility by \$218,000 (Table 16-B), for estimated year 1981 and is the result of the weighted average net plant additions in rate base.

6. Retirement differences are the result of the adoption of different additions by the staff and the utility.

Table 16-A

SAN DIEGO GAS & ELECTRIC COMPANY

Gas Plant 1980

Test Year 1981

: Line : No.	: Item	: Staff	: Utility	: Utility	
				: Exceeds Staff	: Amount Percent
		(a)	(b)	(c)	(d)
(Dollars in Thousands)					
1	January 1, 1980	\$227,097	\$227,097	\$ -	- %
2	Additions	14,075	14,075	-	-
3	Retirements	575	575	-	-
4	Adjustments (RFS Auto's P.O.E.)	(44)	(44)	-	-
5	December 31, 1980	\$240,553	\$240,553	\$ -	- %
6	Common Plant Allocation	\$ 8,082	\$ 8,082	\$ -	- %
7	Total 1980 Plant	\$248,635	\$248,635	\$ -	- %

Table 16-B

SAN DIEGO GAS & ELECTRIC COMPANY

Gas Plant 1981

Test Year 1981

: Line : No.	: Item	: Staff	: Utility	: Utility	
				: Exceeds Staff	: Amount Percent
		(a)	(b)	(c)	(d)
		(Dollars in Thousands)			
1	January 1, 1981	\$240,557	\$240,557	\$ -	- %
2	Additions	13,989	14,217	228	1.6%
3	Retirements	583	593	10	1.7
4	Adjustments (RFS Auto's P.O.E.)	(54)	(54)	-	-
5	December 31, 1981	\$253,909	\$254,127	\$218	0.1%
6	Common Plant Allocation	\$ 8,811	\$ 8,811	\$ -	- %
7	Total 1981 Plant	\$262,720	\$262,938	\$218	0.1%

CHAPTER 17

DEPRECIATION EXPENSE AND RESERVE

1. The staff offers no objection to the depreciation rates used by San Diego Gas & Electric Company for its Gas Department. The differences between staff and utility for the estimates of depreciation expense and reserve for gas plant are explained by the lower plant estimates made by the staff in Chapter 16.

2. An additional \$193,688 adjustment to the staff's reserve estimate for SDG&E is to the Gas Meter account. The justification for the gas meter adjustment is presented in the staff's "Report on the Results of Examination of San Diego Gas & Electric Company."

T A B L E 17-A
 SDGE----GAS DEPARTMENT
 DEPRECIATION AND AMORTIZATION EXPENSE
 TEST YEAR 1981

LN	ACCT.				UTIL. EXCEEDS STAFF	
NO	NO	ITEM	STAFF (A)	UTILITY (B) (THOUSANDS OF DOLLARS)	AMOUNT (C)	PCT (D)
1		DEPRECIATION EXPENSE	\$ 8535.0	\$ 8541.0	\$ 6.0	0.1
2		TOTAL DEP. AND AMORT.	8535.0	8541.0	6.0	0.1

CHAPTER 18

RATE BASE

1. This chapter contains the development of the staff's estimate of the total weighted average rate base of San Diego Gas and Electric Company for test year 1981. Table 18-A shows a comparison between the staff and utility's estimates. A summarization of the total weighted average rate base as estimated by the staff and the utility is as follows:

Test Year 1981
(Thousands of Dollars)

	<u>Staff</u>	<u>Utility</u>
Gas Rate Base	\$159,611	\$158,108

2. The plant in service and reserves for depreciation, depletion, and amortization of gas plant are derived from Chapters 16 and 17, respectively, of this report. Plant in service reflected in rate base includes gas plant, common plant allocation and completed construction not classified.

3. Differences between the staff and utility are as follows.

Net Plant Additions

4. The staff's weighted average net plant additions for the test year was arrived at by applying a weighting factor of 2.72% to the plant-in-service amount. This weighting factor is based on the five years' average of the annual recorded 13 months' weighted average additions. This is in accordance to procedures adopted in Decision No. 83746 (dated November 26, 1974). The utility also used 13 months' weighting method based on uncertain future dates of plant additions to go into operation in a particular month. Staff's estimate is lower than the utility's by \$110,000.

Customer Advances for Construction

5. The staff's estimate of customers advances for construction is lower than the utility by \$590,000 and is arrived by the same methodology as applied by the utility, except the staff had access to 1979 recorded data as opposed to the utility's 1979 estimated data.

Plant in Service

6. The staff's and utility's gas plant in service differs by \$73,000 and reflects the difference between the utility's submitted workpapers and the application.

T A B L E 18-A
 SDGE----GAS DEPARTMENT
 WEIGHTED AVERAGE DEPRECIATED RATE BASE
 TEST YEAR 1981

LN	ACCT.		STAFF	UTILITY	UTIL. EXCEEDS STAFF	
NO	NO	ITEM	(A)	(B)	AMOUNT (C)	PCT (D)
			(THOUSANDS OF DOLLARS)			
1		<u>BEG. BAL.-FIXED CAPITAL</u>				
2		PLANT IN SERVICE	\$ 248635	\$ 248708	\$ 73	0.0
3		PLANT HELD FOR FUT USE	0	0	0	0.0
4		RESEARCH AND DEV.	0	0	0	0.0
5		SUBTOTAL	248635	248708	73	0.0
6		NET PLANT ADDITIONS	6763	6873	110	1.6
7		TOTAL FIXED CAPITAL	255398	255581	183	0.1
8		CUST ADVANCE FOR CONST	-7810	-8400	-590	7.6
9		<u>WORKING CAPITAL</u>				
10		FUEL STORAGE	4054	4054	0	0.0
11		MATERIALS & SUPPLIES	2552	2552	0	0.0
12		WORKING CASH	3388	2099	-1289	-38.0
13		TOTAL WORKING CAPITAL	9994	8705	-1289	-12.9
14		TOTAL BEFORE RESERVES	257582	255886	-1696	-0.7
15		<u>RESERVES</u>				
16		DEFERRED INCOME TAXES	78	78	0	0.0
17		DEPRECIATION	97360	97167	-193	-0.2
18		AMORIZATION & OTHER	533	533	0	0.0
19		TOTAL RESERVES	97971	97778	-193	-0.2
20		TOTAL RATE BASE	159611	158108	-1503	-0.9

TABLE 18-B
Sheet 1 of 2

San Diego Gas & Electric Company
Gas Department

WORKING CASH ALLOWANCE STUDY
Year 1981 Estimated

:Line:		: Gas :
: No.:	Item	: Department :
		(A)
		(Dollars in Thousands)
<u>Operational Cash Requirements</u>		
1	Compensating Minimum Bank Balances	\$1,735
2	Special Deposits and Working Funds	24
3	Miscellaneous Receivables	771
4	Prepayments	448
5	Deferred Debits	<u>781</u>
6	Total Operational Cash Requirements	3,759
<u>Deductions for the Amounts Not Supplied by Investors</u>		
7	Accrued Vacations, Sick Leave and Withholdings	1,511
8	Accounts Payables	2,009
9	User Taxes	72
10	Customer Deposits	<u>1,375</u>
11	Total Deductions	4,967
12	Average Amount Needed as a Result of Paying Expenses, Taxes and Depreciation in Advance of Collecting Revenues	4,651
13	Total Working Cash Allowance	3,443

DEVELOPMENT OF AVERAGE LAG IN PAYMENT OF EXPENSES

	\$ 1000 A	AVG DAY LAG B	\$ 1000 C=A X B
FEDERAL INCOME TAX	\$ 3737.10	103.65	\$ 387350.40
STATE INCOME TAX	1038.70	103.65	107661.20
FRANCHISE REQUIREMENTS	1583.80	171.40	271463.30
PURCHASED GAS	199109.00	37.82	7530303.00
AD VALOREM TAX	1591.00	43.01	68428.91
COMPANY LABOR	19476.00	12.77	248708.50
GOODS & SERVICES	10358.00	29.91	309807.80
EMPLOYEE BENEFITS	3014.00	-2.60	-7836.40
MISC. TAX	2.00	0.00	0.00
FEDERAL UNEMPLOYMENT TAX	28.00	72.04	2017.12
FICA TAX	918.00	7.59	6967.62
DEPRECIATION	8535.00	0.00	0.00
MATERIALS FROM STOREROOM	481.00	0.00	0.00
STATE UNEMPLOYMENT TAX	110.00	72.04	7924.40
MISC. RES.	403.00	0.00	0.00
TOTAL	250384.60		8932796.00

EXP LAG DAYS= C/A = 35.68

REVENUE LAG DAYS = 42.38

ADJUSTMENT TO RATE BASE 4596.10

NEW RATE BASE= 155015.0 + 4596.1= 159611.1

CHAPTER 19

SUMMARY OF EARNINGS

1. The revenues, expenses, taxes and depreciation expenses developed in the preceding chapters of this report for San Diego Gas & Electric Company, Gas Department, are brought together here in order to develop the net revenues and to determine the rate of return based on present rates and also at proposed rates.

2. In Tables 19-A and 19-B are shown comparisons of staff and utility summary of earnings for the 1981 test year estimated at present rates and at utility proposed rates, respectively. The utility showing is from its original application filed July 1, 1980.

3. A summary of the principal assumptions and rate-fixing adjustments reflected in the staff estimates is as follows:

- A. As a result of slower growth than the utility anticipated in Accounts 870 and 879, distribution expenses, the staff has made an adjustment of \$542,000.
- B. Acc. 903.7 (Postage Expenses) - Staff did not include postal rate rate increase for 1981. Staff's estimate is \$556,200, which is \$196,200 lower than the utility's.
- C. The staff has made a \$732,300 adjustment in SDG&E's conservation estimates. Details of this adjustment are shown in the conservation report.
- D. Staff's ad valorem taxes are \$1,079,000 lower than the utility's. This difference is primarily due to the method used to allocate total company ad valorem taxes between operative plant and CWIP and between gas and electric plant.
- E. The staff-estimate of income taxes follows the Commission policy as expressed in previous decisions. The major difference is a result of the staff's higher deduction for capitalized benefits.
- F. A wage adjustment of \$426,300 was made by the staff. This amount reflects the difference between a 13.5% and an 11.0% wage increase.

Net-to-Gross Multiplier

4. The net-to-gross multiplier for the test year 1981, which is the ratio of the gross revenue required to produce a unit change in net revenue, is 2.102 for

19 - SUMMARY OF EARNINGS

sales to gas customers. This means that an increase of \$2,102 in gross revenue is required to produce an increase of \$1,000 in net revenue. The net-to-gross multiplier is developed as follows:

Gross Operating Revenue	100.0000
Less: Uncollectibles at 0.15%	<u>0.15</u>
Subtotal	99.8500
Less: Franchise Requirements at 2.39%	<u>2.3864</u>
Subtotal	97.4636
State Income Tax at 9.6%	<u>9.3565</u>
Subtotal	88.1071
Federal Income Tax at 46%	<u>40.5293</u>
Remainder	47.5778
Net-to-Gross Multiplier	2.1018

(Gross Revenue Divided by Remainder)

T A B L E 19-A
 SDGE----GAS DEPARTMENT
 SUMMARY OF EARNINGS
 TEST YEAR 1981 AT PRESENT RATES

LN NO	ITEM	STAFF (A)	UTILITY (B) (THOUSANDS OF DOLLARS)	UTIL. EXCEEDS STAFF AMOUNT (C)	PCT (D)
1	OPERATING REVENUES				
2	TOTAL REVENUES	\$ 56253.0	\$ 56253.0	\$ 0.0	0.0
3	TOTAL OPERATING REVENUES	56253.0	56253.0	0.0	0.0
4	OPERATING EXPENSES				
5	GAS SUPPLY EXPENSES	-813.7	-853.3	-39.6	4.9
6	STORAGE EXPENSE	2049.1	2087.5	38.4	1.9
7	TOTAL TRANSMISSION EXPENSES	1745.7	1820.8	75.1	4.3
8	DISTRIBUTION EXPENSES	10743.3	11484.8	741.5	6.9
9	CUSTOMER ACCT.	5966.4	6209.2	242.8	4.1
10	MARKETING EXPENSES	3700.7	4433.0	732.3	19.8
11	ADM. & GENERAL EXPENSES	11337.7	11827.3	489.6	4.3
12	SUBTOTAL	34729.2	37009.3	2280.1	6.6
13	WAGE ADJ.	-426.3	0.0	426.3	-100.0
14	SUBTOTAL AFTER WAGE ADJ.	34302.9	37009.3	2706.4	7.9
15	DEP AND AMORT	8535.0	8541.0	6.0	0.1
16	TAXES OTHER THAN INCOME	2649.0	3728.0	1079.0	40.7
17	CALIF FRANCHISE TAX	0.0	257.0	257.0	0.0
18	FED CORP INCOME TAX	-341.2	1282.0	1623.2	-475.7
19	TOTAL OPERATING EXPENSES	45145.7	50817.3	5671.6	12.6
20	NET OPERATING REVENUES ADJUSTD	11107.3	5435.7	-5671.6	-51.1
21	RATE BASE	159611.0	158108.0	-1503.0	-0.9
22	RATE OF RETURN	6.96 %	3.44 %	-3.52 %	

T A B L E 19-B
 SDGE----GAS DEPARTMENT
 SUMMARY OF EARNINGS
 PROPOSED RATES-TEST YEAR 1981

LN NO	ITEM	STAFF (A)	UTILITY (B) (THOUSANDS OF DOLLARS)	UTIL. EXCEEDS STAFF AMOUNT (C)	PCT (D)
1	OPERATING REVENUES				
2	TOTAL REVENUES	\$ 74433.0	\$ 74433.0	\$ 0.0	0.0
3	TOTAL OPERATING REVENUES	<u>74433.0</u>	<u>74433.0</u>	0.0	0.0
4	OPERATING EXPENSES				
5	GAS SUPPLY EXPENSES	-813.7	-853.3	-39.6	4.9
6	STORAGE EXPENSE	2049.1	2087.5	38.4	1.9
7	TOTAL TRANSMISSION EXPENSES	1745.7	1820.8	75.1	4.3
8	DISTRIBUTION EXPENSES	10743.3	11484.8	741.5	6.9
9	CUSTOMER ACCT.	5976.9	6237.0	260.1	4.4
10	MARKETING EXPENSES	3700.7	4433.0	732.3	19.8
11	ADM. & GENERAL EXPENSES	11771.4	12261.0	489.6	4.2
12	SUBTOTAL	<u>35173.4</u>	<u>37470.8</u>	<u>2297.4</u>	<u>6.5</u>
13	WAGE ADJ.	-426.3	0.0	426.3	-100.0
14	SUBTOTAL AFTER WAGE ADJ.	<u>34747.1</u>	<u>37470.8</u>	<u>2723.7</u>	<u>7.8</u>
15	DEP AND AMORT	8535.0	8541.0	6.0	0.1
16	TAXES OTHER THAN INCOME	2649.0	3728.0	1079.0	40.7
17	CALIF FRANCHISE TAX	1693.6	1365.0	-328.6	-19.4
18	FED CORP INCOME TAX	6574.2	5237.0	-1337.2	-20.3
19	TOTAL OPERATING EXPENSES	<u>54198.9</u>	<u>56341.8</u>	<u>2142.9</u>	<u>4.0</u>
20	NET OPERATING REVENUES ADJUSTD	<u>20234.1</u>	<u>18091.2</u>	<u>-2142.9</u>	<u>-10.6</u>
21	RATE BASE	159611.0	158108.0	-1503.0	-0.9
22	RATE OF RETURN	12.68 %	11.44 %	-1.24 %	

CHAPTER 20

RECOMMENDATIONS

The Commission staff recommends that:

1. The wage increase expenses be adjusted prior to the Commission's decision to reflect the latest consumer price index available.
2. Until the postal increase receives final approval, no postal increase should be included in the test year expenses.