

Decision PROPOSED DECISION OF ALJ WONG (Mailed 9/13/2013)

BEFORE THE PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

Application of San Diego Gas & Electric Company (U902M) for Authority, Among Other Things, to Increase Rates and Charges for Electric and Gas Service Effective on January 1, 2012.

Application 10-12-005
(Filed December 15, 2010)

And Related Matter.

Application 10-12-006

DECISION REGARDING THE PETITION OF THE UTILITY REFORM NETWORK FOR MODIFICATION OF DECISION 13-05-010

Background

This decision addresses the petition for modification of Decision (D.) 13-05-010 that was filed by The Utility Reform Network (TURN). TURN requests that the rate of return formula adopted in D.13-05-010 for San Diego Gas & Electric Company's (SDG&E) investment in its legacy electromechanical meters be modified using the same formula that was used for Pacific Gas and Electric Company in D.11-05-018.

Today's decision grants TURN's petition for modification of D.13-05-010. D.13-05-010 shall be modified by making the changes described in this decision, and as shown in Attachment A of this decision. This results in lowering the test year 2012 revenue requirement for SDG&E from \$1,732,830,000 to \$1,731,925,000.

Background

The Utility Reform Network (TURN) filed its petition for modification of Decision (D.) 13-05-010 (Petition) on June 26, 2013. TURN requests that D.13-05-010 be modified to correct the calculation and the text regarding the appropriate rate of return for San Diego Gas & Electric Company's (SDG&E) undepreciated investment in its legacy electromechanical meters.

SDG&E filed its response on July 26, 2013. SDG&E agrees that the error identified by TURN in its Petition should be corrected as expeditiously as possible, and that the formula for calculating SDG&E's return for the legacy electromechanical meters should only gross up the return on equity component for taxes.

Discussion

D.13-05-010 adopted a test year 2012 revenue requirement for SDG&E, and a test year 2012 revenue requirement for Southern California Gas Company. One of the elements that affects the \$1,732,830,000 revenue requirement adopted for SDG&E is the ratemaking treatment of SDG&E's legacy electromechanical meters. SDG&E's electromechanical meters were taken out of service when they were replaced by SDG&E's deployment of its smart meters. Section 18.3.2. of D.13-05-010 addressed the ratemaking treatment of these legacy meters.

In D.13-05-010, the Commission used the same kind of approach that the Commission had adopted for the ratemaking treatment of Pacific Gas and Electric Company's (PG&E) legacy electromechanical meters in D.11-05-018. SDG&E had argued that if it was not allowed to earn its full rate of return, "then the rate of return should be set with the same formula as applied in PG&E's decision in D.11-05-018." (D.13-05-010 at 906.) The Commission in D.13-05-010 authorized SDG&E to earn a 6.2% rate of return on its legacy meters over a

six-year amortization of the undepreciated balance of SDG&E's legacy meters. (See D.13-05-010 at 914, 917-918.) This was similar to the 6.3% rate of return over a six-year amortization period that was authorized for PG&E in D.11-05-018.

Table B-7 of Attachment B to D.13-05-010 reflects the adopted ratemaking treatment of SDG&E's legacy meters, and it is described at pages 917 and 918 of section 18.3.2.3. of that decision. Table B-7 shows that \$18.9 million was included in SDG&E's annual electric distribution operations and maintenance (O&M) expenses, and the decision states that the recovery of the "legacy meter costs is reflected in SDG&E's electric distribution O&M expenses."¹ (D.13-05-010 at 918.)

TURN's Petition contends that instead of using the same formula that was used for PG&E in D.11-05-018, the Commission "applied a different calculation of the return on SDG&E's undepreciated investment in legacy meters, one that effectively assumes that the entire amount should be treated as equity investment." (TURN Petition at 1.) TURN contends that Table B-7 of Attachment B to D.13-05-010 "indicates that the Commission treated SDG&E's remaining investment as if it consisted entirely of equity subject to a rate of return of 6.2%, rather than as if it were a composite of equity, preferred stock and debt with a combined rate of return of 6.2%." (TURN Petition at 2.) TURN points out that in D.11-05-018 for PG&E, "the authorized returns on equity and preferred stock were grossed-up for taxes, but the cost of debt was not." (TURN Petition at 2.) As a result, TURN contends that D.13-05-010 grossed up SDG&E's total return for taxes, instead of grossing up "just the equity and preferred stock

¹ Footnote A to Table B-1 of Attachment B to D.13-05-010 also notes that the adopted electric distribution operations and maintenance expense in Table B-1 includes the \$18.9 million revenue requirement for the legacy meters.

components of the investment.” (TURN Petition at 2.) According to TURN, this calculation method for SDG&E’s legacy meters “produces a higher overall return amount and therefore a higher total cost to ratepayers due to the tax gross-up.”² (TURN Petition at 3.) Due to this error, TURN believes that the revenue requirement for SDG&E should be reduced by approximately \$1.45 million in 2012, and that there should be similar reductions at a declining level over the six-year amortization period.

To correct this error, TURN requests that the text and Attachment B of D.13-05-010 be modified to use the same formula that was applied in D.11-05-018. TURN’s recommended correction is described at pages 3 to 5, and in Table 2, of its Petition. By applying this correction, changes would be made to columns D, E, and F of Table B-7 of Attachment B of D.13-05-010, as shown in TURN’s Revised Table B-7 of its Petition. Using its recommended correction, TURN contends that its revision to Table B-7 will result in a levelized annual revenue requirement of \$18.13 million for 2012 through 2017 for the legacy meters, instead of the \$18.9 million that is shown in Table B-7 of Attachment B to D.13-05-010.

SDG&E’s response to TURN’s Petition states that “SDG&E has carefully reviewed TURN’s petition and agrees that the error identified should be corrected.” SDG&E’s response further states that “During the [General Rate Case] proceeding, SDG&E asked the Commission to apply the same formula that was adopted for PG&E, and that formula includes grossing up only the return of equity component for taxes.” (SDG&E Response at 2.)

² TURN’s Petition at 3 erroneously referred to D.13-03-050 and D.10-03-050, when it appears that TURN meant to reference D.13-05-010.

We have reviewed TURN's Petition, and compared the calculation used for PG&E in D.11-05-018, to the calculation used for SDG&E in D.13-05-010. We agree with TURN that the calculation used in D.13-05-010 erroneously grossed up SDG&E's long term debt. In doing so, the calculation of the annual revenue requirement for SDG&E's legacy meters has been overstated. To correct this, TURN's Petition should be granted, and D.13-05-010 should be modified in the following manner.

Certain tables in Attachment B to D.13-05-010, and the text of D.13-05-010, should be revised to reflect a corrected calculation of the appropriate rate of return, and the effect of such a correction. Attachment A of this decision reflects the correction to certain tables in Attachment B to D.13-05-010. As recommended by TURN, this correction does not gross up the cost of debt for taxes.

The principal revision is to Table B-7 of Attachment B to D.13-05-010. This revised table is part of Attachment A of this decision, and is labeled "Table B-7 Revised, SDG&E Legacy Meter Analysis."

In addition to other changes, "Table B-7 Revised" includes an additional chart, labeled as "Calculation of the Rate of Return on Legacy Meters." This chart reflects the correct calculation of the appropriate rate of return. In order to obtain an overall weighted after-tax return of 6.2%, the return on equity must be adjusted to 6.612%. The amounts shown in the "Calculation of the Rate of Return on Legacy Meters" chart use the capital structure ratios and return on debt and preferred stock that were authorized by the 2008 test year Cost of Capital proceeding in D.07-12-049. The revised rate of return yields a result of \$18.1 million in capital expense to be amortized per year for six years, from 2012

to 2017.³ After running SDG&E's Results of Operation model with the revised figure of \$18.1 million, it results in a \$905,000 decrease to SDG&E's 2012 test year revenue requirement. This is lower than TURN's estimated decrease of \$1.45 million.

Additionally, as a result of this correction and the flow-through effect to SDG&E's Results of Operation model, modifications also need to be made to Tables B-1, B-3, and B-4 of Attachment B to D.13-05-010. These revisions are reflected in Attachment A of this decision as "Table B-1 Revised," "Table B-3 Revised," and "Table B-4 Revised." In addition, the references to \$18.9 million that appeared in the footnotes for Tables B-1, B-3, B-4, and B-7 in Attachment B to D.13-05-010, and at page 918 in section 18.3.2.3. of D.13-05-010, should be changed to \$18.1 million.

Since this revised calculation to SDG&E's legacy meters results in a lower authorized revenue requirement for SDG&E, the references at various locations in D.13-05-010 to an authorized revenue requirement of \$1,732,830,000 should be modified by revising that amount to \$1,731,925,000.

In addition, the sentence that appears at page 917 in section 18.3.2.3. of D.13-05-010 ("Based on a weighing and balancing of all those considerations, SDG&E should be allowed to earn a rate of return of 6.2%") should be modified to state as follows: "Based on a weighing and balancing of all those considerations, SDG&E should be allowed to earn a rate of return of 6.2%, which is an overall weighted, after-tax return, and is consistent with how the calculation was done for PG&E in D.11-05-018."

³ In contrast, Table B-7 of Attachment B to D.13-05-010 shows an amount of \$18.9 million per year.

As discussed above, TURN's Petition should be granted, and D.13-05-010 should be modified as discussed above.

Comments on Proposed Decision

The proposed decision of Administrative Law Judge (ALJ) John S. Wong in this matter was mailed to the parties in accordance with Pub. Util. Code § 311, and comments were allowed pursuant to Rule 14.3. No comments were received.

Assignment of Proceeding

Mark J. Ferron is the assigned Commissioner, and John S. Wong is the assigned ALJ in this proceeding.

Findings of Fact

1. TURN's Petition requests that D.13-05-010 be modified to correct the calculation and the text regarding the appropriate rate of return for SDG&E's undepreciated investment in its legacy electromechanical meters.
2. SDG&E agrees that the formula for calculating SDG&E's return for the legacy meters should only gross up the return on equity component for taxes.
3. One of the elements that affects the \$1,732,830,000 revenue requirement adopted for SDG&E in D.13-05-010 is the ratemaking treatment of SDG&E's legacy meters.
4. SDG&E took the position that if it was not allowed to earn its full rate of return on its legacy meters, that the rate of return should be set with the same formula as applied to PG&E in D.11-05-018.
5. Table B-7 of Attachment B to D.13-05-010 reflects the adopted ratemaking treatment of SDG&E's legacy meters, and \$18.9 million was included in SDG&E's annual distribution O&M expenses.

6. We agree with TURN that the calculation used in D.13-05-010 erroneously grossed up SDG&E's long term debt, which overstated the calculation of the annual revenue requirement for SDG&E's legacy meters.

7. Attachment A of this decision reflects the correction to certain tables in Attachment B to D.13-05-010.

8. The additional chart that is contained in "Table B-7 Revised" of Attachment A of this decision, reflects the correct calculation of the appropriate rate of return for SDG&E's legacy meters.

9. The revised rate of return yields a result of \$18.1 million in capital expense to be amortized per year for six years, from 2012 to 2017, and when this revision is re-run through SDG&E's Results of Operation model, it results in a \$905,000 decrease to SDG&E's 2012 test year revenue requirement.

Conclusions of Law

1. To correct the erroneous gross-up of SDG&E's long term debt, TURN's Petition should be granted, and D.13-05-010 should be modified as reflected in Attachment A of this decision, and as described in this decision and in the Ordering Paragraphs below.

2. The references in D.13-05-010 to the authorized revenue requirement of \$1,732,830,000 should be revised to \$1,731,925,000.

O R D E R

IT IS ORDERED that:

1. The Petition for Modification of Decision 13-05-010, which was filed by The Utility Reform Network on June 26, 2013, is granted as described in the Ordering Paragraphs below.

2. Decision (D.) 13-05-010 shall be modified as follows:

- a. Tables B-1, B-3, B-4, and B-7 of Attachment B to D.13-05-010 shall be replaced by the revised tables in Attachment A of this decision, which are labeled "Table B-1 Revised," "Table B-3 Revised," "Table B-4 Revised," and "Table B-7 Revised, SDG&E Legacy Meter Analysis."
- b. The references in D.13-05-010 to \$18.9 million, which appear in the footnotes for Tables B-1, B-3, B-4, and B-7 of Attachment B to D.13-05-010, shall be changed to \$18.1 million.
- c. The references to \$18.9 million, which appear at page 918 in section 18.3.2.3. of D.13-05-010 shall be changed to \$18.1 million.
- d. The following sentence which appears at page 917 in section 18.3.2.3 of D.13-05-010, and which states as follows: "Based on a weighing and balancing of all those considerations, SDG&E should be allowed to earn a rate of return of 6.2%," shall be modified and replaced with the following sentence: "Based on a weighing and balancing of all those considerations, SDG&E should be allowed to earn a rate of return of 6.2%, which is an overall weighted, after-tax return, and is consistent with how the calculation was done for PG&E in D.11-05-018."
- e. All of the references in D.13-05-010 to San Diego Gas & Electric Company's adopted revenue requirement of \$1,732,830,000 shall be changed to \$1,731,925,000 as reflected in "Table B-1 Revised" of Attachment A to this decision.

3. San Diego Gas & Electric Company shall file a Tier 1 advice letter within 30 days of the effective date of this decision to modify the 2012 test year revenue requirement adopted in Decision 13-05-010 to the revised amount of \$1,731,925,000 as discussed in this decision and as reflected in Attachment A of

this decision. This revised revenue requirement shall be reflected in rates on or before January 1, 2014.

4. Application (A.) 10-12-005 and A.10-12-006 remain open to address other pending matters.

This order is effective today.

Dated _____, at Redding, California.

ATTACHMENT A

Modifications to Attachment B of Decision 13-05-010

Table B-1 Revised
San Diego Gas & Electric Company
2012 Combined Results of Operations
(in Thousand of Dollars)

Line No.	Item	SDG&E Request (Based on February 2012 Updated Testimony)	Adopted	Difference (SDG&E Request Less Adopted)
1	Base Margin	\$ 1,825,067	\$ 1,708,512	\$ 116,555
2	Miscellaneous Revenues	\$ 23,670	\$ 23,413	\$ 257
3	Revenue Requirement	\$ 1,848,737	\$ 1,731,925	\$ 116,812
OPERATING & MAINTENANCE EXPENSES				
4	Distribution ^{(A) (B)}	\$ 148,240	\$ 141,889	\$ 6,351
5	Gas Transmission	\$ 3,916	\$ 3,810	\$ 106
6	Generation	\$ 33,687	\$ 31,761	\$ 1,926
7	Nuclear Generation (SONGS)	\$ 120,108	\$ 117,233	\$ 2,875
8	Engineering	\$ 13,749	\$ 11,492	\$ 2,257
9	Procurement	\$ 10,442	\$ 9,358	\$ 1,084
10	Customer Services	\$ 92,887	\$ 84,295	\$ 8,592
11	Information Technology	\$ 54,759	\$ 52,439	\$ 2,320
12	Support Services	\$ 93,506	\$ 87,771	\$ 5,735
13	Administrative and General	\$ 470,076	\$ 397,948	\$ 72,128
14	Subtotal (2009\$)	\$ 1,041,370	\$ 937,996	\$ 103,374
15	Shared Services Adjustments	\$ (43,301)	\$ (43,710)	\$ 410
16	Reassignments	\$ (141,163)	\$ (117,782)	\$ (23,381)
17	FERC Transmission Costs	\$ (48,484)	\$ (41,888)	\$ (6,597)
18	Escalation	\$ 29,139	\$ 26,732	\$ 2,408
19	Uncollectibles	\$ 3,176	\$ 2,973	\$ 203
20	Franchise Fees	\$ 58,498	\$ 54,880	\$ 3,618
21	Total O&M (2012\$)	\$ 899,235	\$ 819,201	\$ 80,034
22	Depreciation & Amortization	\$ 340,469	\$ 327,154	\$ 13,316
23	Taxes on Income ^(C)	\$ 170,927	\$ 167,046	\$ 3,881
24	Taxes Other Than on Income	\$ 79,607	\$ 76,502	\$ 3,105
25	Total Operating Expenses	\$ 1,490,239	\$ 1,389,902	\$ 100,337
26	Return	\$ 358,498	\$ 342,023	\$ 16,475
27	Rate Base	\$ 4,267,834	\$ 4,071,698	\$ 196,136
28	Rate of Return	8.40%	8.40%	
29	Revenues at Present Rates	\$ 1,609,451	\$ 1,609,451	\$ -
30	Net increase over Present Rates	\$ 239,286	\$ 122,474	\$ 116,812
31	Derivation of Base Margin			
32	O&M Expenses	\$ 899,235	\$ 819,201	\$ 80,034
33	Depreciation	\$ 340,469	\$ 327,154	\$ 13,316
34	Taxes	\$ 250,535	\$ 243,548	\$ 6,987
35	Return	\$ 358,498	\$ 342,023	\$ 16,475
36	Revenue Requirement	\$ 1,848,737	\$ 1,731,925	\$ 116,812
37	Less: Misc. Revenues	\$ 23,670	\$ 23,413	\$ 257
38	Base Margin	\$ 1,825,067	\$ 1,708,512	\$ 116,555

(A) The adopted electric distribution O&M expense includes the \$18.1 million Legacy Meter revenue requirement (see Table B-7). This amount is not subject to PTY escalation.

(B) The adopted O&M distribution expense includes the impact of a \$500,000 reduction due to income tax. This reduction is discussed in Section 21.4.

(C) The adopted Taxes on Income does not reflect the \$500,000 reduction in income taxes. See footnote B.

Table B-2
San Diego Gas & Electric Company
2012 Gas Summary of Earnings
(in Thousand of Dollars)

Line No.	Item	SDG&E Request (Based on February 2012 Updated Testimony)	Adopted	Difference (SDG&E Request Less Adopted)
1	Base Margin	\$ 316,001	\$ 286,919	\$ 29,082
2	Miscellaneous Revenues	\$ 5,458	\$ 5,341	\$ 117
3	Revenue Requirement	\$ 321,459	\$ 292,259	\$ 29,199
OPERATING & MAINTENANCE EXPENSES				
4	Distribution ^(A)	\$ 22,137	\$ 17,208	\$ 4,929
5	Gas Transmission	\$ 3,916	\$ 3,810	\$ 106
6	Generation	\$ 164	\$ 156	\$ 9
7	Nuclear Generation (SONGS)		\$ -	\$ -
8	Engineering	\$ 13,304	\$ 11,277	\$ 2,027
9	Procurement	\$ 359	\$ 335	\$ 24
10	Customer Services	\$ 31,970	\$ 30,045	\$ 1,925
11	Information Technology	\$ 21,646	\$ 21,076	\$ 570
12	Support Services	\$ 19,146	\$ 17,987	\$ 1,159
13	Administrative and General	\$ 101,339	\$ 83,558	\$ 17,781
14	Subtotal (2009\$)	\$ 213,981	\$ 185,452	\$ 28,529
15	Shared Services Adjustments	\$ (9,438)	\$ (9,739)	\$ 301
16	Reassignments	\$ (33,446)	\$ (27,595)	\$ (5,851)
17	FERC Transmission Costs	\$ -	\$ -	\$ -
18	Escalation	\$ 7,860	\$ 6,858	\$ 1,001
19	Uncollectibles (0.174%)	\$ 550	\$ 499	\$ 51
20	Franchise Fees (2.1104%)	\$ 6,669	\$ 6,055	\$ 614
21	Total O&M (2012\$)	\$ 186,175	\$ 161,530	\$ 24,644
22	Depreciation & Amortization	\$ 54,505	\$ 52,828	\$ 1,678
23	Taxes on Income ^(B)	\$ 23,761	\$ 23,757	\$ 4
24	Taxes Other Than on Income	\$ 12,953	\$ 12,348	\$ 604
25	Total Operating Expenses	\$ 277,393	\$ 250,463	\$ 26,931
26	Return	\$ 44,065	\$ 41,796	\$ 2,269
27	Rate Base	\$ 524,585	\$ 497,576	\$ 27,009
28	Rate of Return	8.40%	8.40%	
29	Revenues at Present Rates	\$ 284,066	\$ 284,066	\$ -
30	Net increase over Present Rates	\$ 37,393	\$ 8,194	\$ 29,199
31	Derivation of Base Margin			
32	O&M Expenses	\$ 186,175	\$ 161,530	\$ 24,644
33	Depreciation	\$ 54,505	\$ 52,828	\$ 1,678
34	Taxes	\$ 36,713	\$ 36,105	\$ 609
35	Return	\$ 44,065	\$ 41,796	\$ 2,269
36	Revenue Requirement	\$ 321,459	\$ 292,259	\$ 29,199
37	Less: Misc. Revenues	\$ 5,458	\$ 5,341	\$ 117
38	Base Margin	\$ 316,001	\$ 286,919	\$ 29,082

(A) The adopted O&M distribution expense includes the impact of a \$250,000 reduction due to income tax. This reduction is discussed in Section 21.4.

(B) The adopted Taxes on Income does not reflect the \$250,000 reduction in income taxes. See footnote A.

Table B-3 Revised
San Diego Gas & Electric Company
2012 Electric Summary of Earnings
(in Thousand of Dollars)

Line No.	Item	SDG&E Request (Based on February 2012 Updated Testimony)	Adopted	Difference (SDG&E Request Less Adopted)
1	Base Margin	\$ 1,509,067	\$ 1,421,594	\$ 87,473
2	Miscellaneous Revenues	\$ 18,212	\$ 18,072	\$ 140
3	Revenue Requirement	\$ 1,527,278	\$ 1,439,666	\$ 87,613
OPERATING & MAINTENANCE EXPENSES				
4	Distribution ^{(A) (B)}	\$ 126,103	\$ 124,681	\$ 1,422
5	Gas Transmission	\$ -	\$ -	\$ -
6	Generation	\$ 33,523	\$ 31,605	\$ 1,917
7	Nuclear Generation (SONGS)	\$ 120,108	\$ 117,233	\$ 2,875
8	Engineering	\$ 445	\$ 215	\$ 230
9	Procurement	\$ 10,083	\$ 9,023	\$ 1,060
10	Customer Services	\$ 60,917	\$ 54,250	\$ 6,667
11	Information Technology	\$ 33,113	\$ 31,363	\$ 1,750
12	Support Services	\$ 74,360	\$ 69,784	\$ 4,576
13	Administrative and General	\$ 368,737	\$ 314,390	\$ 54,347
14	Subtotal (2009\$)	\$ 827,390	\$ 752,545	\$ 74,845
15	Shared Services Adjustments	\$ (33,862)	\$ (33,971)	\$ 109
16	Reassignments	\$ (107,717)	\$ (90,187)	\$ (17,530)
17	FERC Transmission Costs	\$ (48,484)	\$ (41,888)	\$ (6,597)
18	Escalation	\$ 21,279	\$ 19,873	\$ 1,406
19	Uncollectibles (0.174%)	\$ 2,626	\$ 2,474	\$ 152
20	Franchise Fees (3.4345%)	\$ 51,829	\$ 48,825	\$ 3,004
21	Total O&M (2012\$)	\$ 713,061	\$ 657,671	\$ 55,390
22	Depreciation & Amortization	\$ 285,964	\$ 274,326	\$ 11,638
23	Taxes on Income ^(C)	\$ 147,166	\$ 143,289	\$ 3,877
24	Taxes Other Than on Income	\$ 66,655	\$ 64,154	\$ 2,501
25	Total Operating Expenses	\$ 1,212,846	\$ 1,139,440	\$ 73,406
26	Return	\$ 314,433	\$ 300,226	\$ 14,207
27	Rate Base	\$ 3,743,249	\$ 3,574,122	\$ 169,127
28	Rate of Return	8.40%	8.40%	
29	Revenues at Present Rates	\$ 1,325,385	\$ 1,325,385	\$ -
30	Net increase over Present Rates	\$ 201,893	\$ 114,281	\$ 87,613
31	Derivation of Base Margin			
32	O&M Expenses	\$ 713,061	\$ 657,671	\$ 55,390
33	Depreciation	\$ 285,964	\$ 274,326	\$ 11,638
34	Taxes	\$ 213,821	\$ 207,443	\$ 6,378
35	Return	\$ 314,433	\$ 300,226	\$ 14,207
36	Revenue Requirement	\$ 1,527,278	\$ 1,439,666	\$ 87,613
37	Less: Misc. Revenues	\$ 18,212	\$ 18,072	\$ 140
38	Base Margin	\$ 1,509,067	\$ 1,421,594	\$ 87,473

(A) The adopted electric distribution O&M expense includes the \$18.1 million Legacy Meter revenue requirement (see Table B-7). This amount is not subject to PTY escalation.

(B) The adopted O&M distribution expense includes the impact of a \$250,000 reduction due to income tax. This reduction is discussed in Section 21.4.

(C) The adopted Taxes on Income does not reflect the \$250,000 reduction in income taxes. See footnote B.

Table B-4 Revised
San Diego Gas & Electric Company
2012 Electric Distribution Summary of Earnings
(in Thousand of Dollars)

Line No.	Item	SDG&E Request (Based on February 2012 Updated Testimony)	Adopted	Difference (SDG&E Request Less Adopted)
1	Base Margin	\$ 1,212,355	\$ 1,132,102	\$ 80,253
2	Miscellaneous Revenues	\$ 18,212	\$ 18,072	\$ 140
3	Revenue Requirement	\$ 1,230,567	\$ 1,150,174	\$ 80,393
OPERATING & MAINTENANCE EXPENSES				
4	Distribution ^(A) ^(B)	\$ 125,859	\$ 124,563	\$ 1,296
5	Gas Transmission	\$ -	\$ -	\$ -
6	Generation	\$ 454	\$ 430	\$ 24
7	Nuclear Generation (SONGS)	\$ -	\$ -	\$ -
8	Engineering	\$ 445	\$ 215	\$ 230
9	Procurement	\$ 10,059	\$ 9,000	\$ 1,059
10	Customer Services	\$ 60,795	\$ 54,137	\$ 6,659
11	Information Technology	\$ 32,957	\$ 31,209	\$ 1,749
12	Support Services	\$ 73,083	\$ 68,593	\$ 4,490
13	Administrative and General	\$ 359,638	\$ 306,517	\$ 53,120
14	Subtotal (2009\$)	\$ 663,290	\$ 594,664	\$ 68,626
15	Shared Services Adjustments	\$ (32,999)	\$ (33,108)	\$ 109
16	Reassignments	\$ (105,528)	\$ (87,998)	\$ (17,530)
17	FERC Transmission Costs	\$ (48,484)	\$ (41,888)	\$ (6,597)
18	Escalation	\$ 19,158	\$ 17,930	\$ 1,227
19	Uncollectibles	\$ 2,109	\$ 1,970	\$ 140
20	Franchise Fees	\$ 48,770	\$ 45,840	\$ 2,930
21	Total O&M (2012\$)	\$ 546,316	\$ 497,409	\$ 48,906
22	Depreciation & Amortization	\$ 247,768	\$ 236,321	\$ 11,447
23	Taxes on Income ^(C)	\$ 120,169	\$ 116,437	\$ 3,732
24	Taxes Other Than on Income	\$ 56,591	\$ 54,204	\$ 2,387
25	Total Operating Expenses	\$ 970,843	\$ 904,371	\$ 66,472
26	Return	\$ 259,724	\$ 245,803	\$ 13,921
27	Rate Base	\$ 3,091,947	\$ 2,926,227	\$ 165,720
28	Rate of Return	8.40%	8.40%	
29	Revenues at Present Rates	\$ 1,068,057	\$ 1,068,057	\$ -
30	Net increase over Present Rates	\$ 162,510	\$ 82,117	\$ 80,393
31	Derivation of Base Margin			
32	O&M Expenses	\$ 546,316	\$ 497,409	\$ 48,906
33	Depreciation	\$ 247,768	\$ 236,321	\$ 11,447
34	Taxes	\$ 176,760	\$ 170,641	\$ 6,119
35	Return	\$ 259,724	\$ 245,803	\$ 13,921
36	Revenue Requirement	\$ 1,230,567	\$ 1,150,174	\$ 80,393
37	Less: Misc. Revenues	\$ 18,212	\$ 18,072	\$ 140
38	Base Margin	\$ 1,212,355	\$ 1,132,102	\$ 80,253

(A) The adopted electric distribution O&M expense includes the \$18.1 million Legacy Meter revenue requirement (see Table B-7). This amount is not subject to PTY escalation.

(B) The adopted O&M distribution expense includes the impact of a \$250,000 reduction due to income tax. This reduction is discussed in Section 21.4.

(C) The adopted Taxes on Income does not reflect the \$250,000 reduction in income taxes. See footnote B.

Table B-5
San Diego Gas & Electric Company
2012 Generation Summary of Earnings
(in Thousand of Dollars)

Line No.	Item	SDG&E Request (Based on February 2012 Updated Testimony)	Adopted	Difference (SDG&E Request Less Adopted)
1	Base Margin	\$ 135,351	\$ 130,859	\$ 4,492
2	Miscellaneous Revenues	\$ -	\$ -	\$ -
3	Revenue Requirement	\$ 135,351	\$ 130,859	\$ 4,492
OPERATING & MAINTENANCE EXPENSES				
4	Distribution	\$ 244	\$ 117	\$ 126
5	Gas Transmission	\$ -	\$ -	\$ -
6	Generation	\$ 33,069	\$ 31,176	\$ 1,893
7	Nuclear Generation (SONGS)	\$ -	\$ -	\$ -
8	Engineering	\$ -	\$ -	\$ -
9	Procurement	\$ 25	\$ 23	\$ 2
10	Customer Services	\$ 122	\$ 114	\$ 9
11	Information Technology	\$ 156	\$ 154	\$ 1
12	Support Services	\$ 1,277	\$ 1,191	\$ 86
13	Administrative and General	\$ 7,252	\$ 6,026	\$ 1,226
14	Subtotal (2009\$)	\$ 42,145	\$ 38,801	\$ 3,344
15	Shared Services Adjustments	\$ (863)	\$ (863)	\$ (1)
16	Reassignments	\$ (2,189)	\$ (2,189)	\$ -
17	FERC Transmission Costs	\$ -	\$ -	\$ -
18	Escalation	\$ 2,122	\$ 1,943	\$ 179
19	Uncollectibles	\$ 236	\$ 228	\$ 8
20	Franchise Fees	\$ 1,395	\$ 1,349	\$ 46
21	Total O&M (2012\$)	\$ 42,846	\$ 39,270	\$ 3,576
22	Depreciation & Amortization	\$ 23,933	\$ 23,671	\$ 262
23	Taxes on Income	\$ 19,594	\$ 19,418	\$ 176
24	Taxes Other Than on Income	\$ 7,592	\$ 7,465	\$ 127
25	Total Operating Expenses	\$ 93,963	\$ 89,823	\$ 4,140
26	Return	\$ 41,387	\$ 41,036	\$ 352
27	Rate Base	\$ 492,704	\$ 488,518	\$ 4,186
28	Rate of Return	8.40%	8.40%	
29	Revenues at Present Rates	\$ 131,167	\$ 131,167	\$ -
30	Net increase over Present Rates	\$ 4,184	\$ (308)	\$ 4,492
31	Derivation of Base Margin			
32	O&M Expenses	\$ 42,846	\$ 39,270	\$ 3,576
33	Depreciation	\$ 23,933	\$ 23,671	\$ 262
34	Taxes	\$ 27,185	\$ 26,883	\$ 302
35	Return	\$ 41,387	\$ 41,036	\$ 352
36	Revenue Requirement	\$ 135,351	\$ 130,859	\$ 4,492
37	Less: Misc. Revenues	\$ -	\$ -	\$ -
38	Base Margin	\$ 135,351	\$ 130,859	\$ 4,492

Table B-6
San Diego Gas & Electric Company
2012 SONGS Summary of Earnings
(in Thousand of Dollars)

Line No.	Item	SDG&E Request (Based on February 2012 Updated)	Adopted	Difference (SDG&E Request Less Adopted)
1	Base Margin	\$ 161,361	\$ 158,633	\$ 2,728
2	Miscellaneous Revenues	\$ -	\$ -	\$ -
3	Revenue Requirement	\$ 161,361	\$ 158,633	\$ 2,728
OPERATING & MAINTENANCE EXPENSES				
4	Distribution	\$ -	\$ -	\$ -
5	Gas Transmission	\$ -	\$ -	\$ -
6	Generation	\$ -	\$ -	\$ -
7	Nuclear Generation (SONGS)	\$ 120,108	\$ 117,233	\$ 2,875
8	Engineering	\$ -	\$ -	\$ -
9	Procurement	\$ -	\$ -	\$ -
10	Customer Services	\$ -	\$ -	\$ -
11	Information Technology	\$ -	\$ -	\$ -
12	Support Services	\$ -	\$ -	\$ -
13	Administrative and General	\$ 1,847	\$ 1,847	\$ -
14	Subtotal (2009\$)	\$ 121,955	\$ 119,080	\$ 2,875
15	Shared Services Adjustments	\$ -	\$ -	\$ -
16	Reassignments	\$ -	\$ -	\$ -
17	FERC Transmission Costs	\$ -	\$ -	\$ -
18	Escalation	\$ -	\$ -	\$ -
19	Uncollectibles	\$ 281	\$ 276	\$ 5
20	Franchise Fees	\$ 1,664	\$ 1,636	\$ 28
21	Total O&M (2012\$)	\$ 123,899	\$ 120,992	\$ 2,908
22	Depreciation & Amortization	\$ 14,264	\$ 14,335	\$ (71)
23	Taxes on Income	\$ 7,404	\$ 7,434	\$ (30)
24	Taxes Other Than on Income	\$ 2,472	\$ 2,485	\$ (13)
25	Total Operating Expenses	\$ 148,039	\$ 145,245	\$ 2,794
26	Return	\$ 13,322	\$ 13,388	\$ (65)
27	Rate Base	\$ 158,598	\$ 159,377	\$ (779)
28	Rate of Return	8.40%	8.40%	
29	Revenues at Present Rates	\$ 126,161	\$ 126,161	
30	Net increase over Present Rates	\$ 35,200	\$ 32,472	
31	Derivation of Base Margin			
32	O&M Expenses	\$ 123,899	\$ 120,992	\$ 2,908
33	Depreciation	\$ 14,264	\$ 14,335	\$ (71)
34	Taxes	\$ 9,876	\$ 9,919	\$ (43)
35	Return	\$ 13,322	\$ 13,388	\$ (65)
36	Revenue Requirement	\$ 161,361	\$ 158,633	\$ 2,728
37	Less: Misc. Revenues	\$ -	\$ -	\$ -
38	Base Margin	\$ 161,361	\$ 158,633	\$ 2,728

Table B-7 Revised
SDG&E Legacy Meter Analysis
(in Millions of Dollars)

Calculation of Yearly Legacy Meter Expense

	A	B	C = B * 8.715%	D = A + C	E
Year	Amortization	Ratebase	Before Tax Return (at 8.715%)	Return + Amortization	Yearly Recovery
2012	13.86	83.13	7.24	21.10	18.1
2013	13.86	69.28	6.04	19.89	18.1
2014	13.86	55.42	4.83	18.68	18.1
2015	13.86	41.57	3.62	17.48	18.1
2016	13.86	27.71	2.41	16.27	18.1
2017	13.86	13.86	1.21	15.06	18.1
	83.13		25.36	108.5	108.5

NOTES:

1. The requested recovery of \$85.1M in ratebase for Legacy meters was depreciated for one year at a rate of 2.32%. Therefore, the undepreciated balance for the Legacy meters in 2012 is \$83.13M.
 $\$85.1M - (2.32\% \text{ of } \$85.1M) = \$85.1M - \$1.97M = \$83.13M$
2. The calculation of the revised return of 8.717% is explained in the table below.
3. The above calculations show that amortization of the Legacy Meter balance at equal amounts for 6 years yield a capital expense of \$18.1M per year from 2012 to 2017.
4. \$18.1M per year is added to SDG&E's Non-shared services workgroup 1ED014-000 for recovery.

Calculation of the Rate of Return on Legacy Meters

	Authorized Return (w/Adjusted ROE)	Capital Ratio	Weighted After Tax Return	Gross-Up	Before Tax Return
Long Term Debt	5.620%	45.25%	2.54%	1.0	2.54%
Preferred Stock	7.250%	5.75%	0.42%	1.68765	0.70%
Common Stock (ROE)	6.612%	49.00%	3.24%	1.68765	5.47%
Total			6.20%		8.715%

NOTES:

1. In order to achieve an after tax and weighted return of 6.2%, the return on equity (ROE), also the return on Common Stock, must be adjusted to 6.612%.
2. Given that the ROE is 6.612%, the overall before tax return that should be applied to ratebase is 8.715%.

Table B-8
Southern California Gas Company
2012 Results of Operations
(in Thousand of Dollars)

Line No.	Item	SCG Request (Based on February 2012 Updated Testimony)	Adopted	Difference (SCG Request Less Adopted)
1	Description			
1	Base Margin	\$ 2,009,822	\$ 1,855,615	\$ 154,207
2	Miscellaneous Revenues	102,654	\$ 103,131	\$ (477)
3	Revenue Requirement	\$ 2,112,476	\$ 1,958,745	\$ 153,730
	Operating and Maintenance Expenses			
4	Gas Distribution ^(A)	\$ 132,337	\$ 108,641	\$ 23,696
5	Transmission	\$ 32,357	\$ 32,357	\$ -
6	Underground Storage	\$ 28,939	\$ 28,939	\$ -
7	Engineering	\$ 94,452	\$ 78,986	\$ 15,466
8	Procurement	\$ 3,639	\$ 3,639	\$ -
9	Customer Services	\$ 323,893	\$ 312,148	\$ 11,745
10	Information Technology	\$ 47,472	\$ 46,153	\$ 1,319
11	Support Services	\$ 121,314	\$ 116,312	\$ 5,002
12	Administrative and General	\$ 373,881	\$ 306,131	\$ 67,750
13	Subtotal (2009\$)	\$ 1,158,284	\$ 1,033,306	\$ 124,978
14	Shared Services Adjustments	\$ 34,754	\$ 34,961	\$ (207)
15	Reassignments	\$ (80,997)	\$ (69,173)	\$ (11,823)
16	Escalation	\$ 62,108	\$ 56,796	\$ 5,311
17	Uncollectibles (0.278%)	\$ 5,468	\$ 5,049	\$ 420
18	Franchise Fees (1.4593%)	\$ 29,730	\$ 27,480	\$ 2,250
19	Total O&M (2012\$)	\$ 1,209,348	\$ 1,088,419	\$ 120,929
20	Depreciation	\$ 372,774	\$ 364,520	\$ 8,253
21	Taxes on Income ^(B)	\$ 134,602	\$ 128,461	\$ 6,142
22	Taxes Other Than on Income	\$ 81,325	\$ 78,418	\$ 2,907
23	Total Operating Expenses	\$ 1,798,049	\$ 1,659,818	\$ 138,231
24	Return	\$ 314,427	\$ 298,927	\$ 15,500
25	Rate Base	\$ 3,622,427	\$ 3,443,860	\$ 178,567
26	Rate of Return	8.68%	8.68%	
27	Revenues at Present Rates	\$ 1,873,914	\$ 1,873,914	
28	Net increase over Present Rates	\$ 238,562	\$ 84,832	
29	Derivation of Base Margin			
30	O&M Expenses	\$ 1,209,348	\$ 1,088,419	\$ 120,929
31	Depreciation	\$ 372,774	\$ 364,520	\$ 8,253
32	Taxes	\$ 215,928	\$ 206,879	\$ 9,049
33	Return	\$ 314,427	\$ 298,927	\$ 15,500
34	Revenue Requirement	\$ 2,112,476	\$ 1,958,745	\$ 153,730
35	Less: Miscellaneous Revenues	\$ 102,654	\$ 103,131	\$ (477)
36	Base Margin	\$ 2,009,822	\$ 1,855,615	\$ 154,207

(A) The adopted O&M distribution expense includes the impact of a \$500,000 reduction due to income tax. This reduction is discussed in Section 21.4.

(B) The adopted Taxes on Income does not reflect the \$500,000 reduction in income taxes. See footnote A.

(End of Attachment A)