

**PUBLIC UTILITIES COMMISSION**505 VAN NESS AVENUE
SAN FRANCISCO, CA 94102-3298**FILED**09-15-06
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September 15, 2006

Agenda ID #5992
Ratesetting

TO: PARTIES OF RECORD IN APPLICATIONS (A.) 05-05-006, A.05-05-011, A.05-05-012

This is the proposed decision of Administrative Law Judge (ALJ) Galvin. It will not appear on the Commission's agenda for at least 30 days after the date it is mailed. The Commission may act then, or it may postpone action until later.

When the Commission acts on the proposed decision, it may adopt all or part of it as written, amend or modify it, or set it aside and prepare its own decision. Only when the Commission acts does the decision become binding on the parties.

Parties to the proceeding may file comments on the proposed decision as provided in Article 14 of the Commission's **Rules of Practice and Procedure** (Rules), accessible on the Commission's website at <http://www.cpuc.ca.gov>. Pursuant to Rule 14.3, opening comments shall not exceed 15 pages.

Comments must be filed either electronically pursuant to Resolution ALJ-188 or with the Commission's Docket Office. Comments should be served on parties to this proceeding in accordance with Rules 1.9 and 1.10. Electronic copies of comments should be sent to ALJ Galvin at mfg@cpuc.ca.gov. All parties must serve hard copies on the ALJ and the Assigned Commissioner, and for that purpose I suggest hand delivery, overnight mail, or other expeditious method of service. The current service list for this proceeding is available on the Commission's website at www.cpuc.ca.gov.

/s/ ANGELA K. MINKIN
Angela K. Minkin, Chief
Administrative Law Judge

ANG:h12

Attachment

Decision **PROPOSED DECISION OF ALJ GALVIN (Mailed 9/15/2006)****BEFORE THE PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA**

Application of Pacific Gas and Electric Company for Authority to Establish Its Authorized Rate of Return on Common Equity for Electric Utility Generation and Distribution Operations and Gas Distribution for Test Year 2006. (U 39 M)

Application 05-05-006
(Filed May 9, 2005; Petition
for Modification Filed
April 5, 2006)

Application of Southern California Edison Company (U 338-E) for Authorized Capital Structure, Rate of Return on Common Equity, Embedded Cost of Debt and Preferred Stock, and Overall Rate of Return for Utility Operations for 2006.

Application 05-05-011
(Filed May 9, 2005; Petition
for Modification Filed
April 5, 2006)

Application of San Diego Gas & Electric Company (U 902-M) for Authority to: (i) Increase its Authorized Return on Common Equity, (ii) Adjust its Authorized Capital Structure, (iii) Adjust its Authorized Embedded Costs of Debt and Preferred Stock, (iv) Increase its Overall Rate of Return, and (v) Revise its Electric Distribution and Gas Rates Accordingly, and for Related Substantive and Procedural Relief.

Application 05-05-012
(Filed May 9, 2005; Petition
for Modification Filed
April 5, 2006)

OPINION GRANTING MODIFICATION OF DECISION 05-12-043**I. Summary**

This decision authorizes San Diego Gas & Electric Company (SDG&E) to defer its option of filing a test year 2007 Cost of Capital (COC) application to a

test year 2008 COC application. If SDG&E does not file a test year 2008 COC application by May 8, 2007 its next COC application is due May 8, 2010 for test year 2011.

II. Background

SDG&E is subject to a COC mechanism identified as the Market-Indexed Capital Adjustment Mechanism (MICAM) established by Decision (D.) 96-06-055 and most recently modified by D.03-09-008. Pursuant to the MICAM, SDG&E is to file a COC application every five years, unless ordered otherwise by the Commission. Under MICAM, changes in utility bond interest rates greater than 100 basis points trigger a change in its authorized return on equity (ROE) according to a pre-established formula.

SDG&E last filed a COC application in 2005 for test year 2006, pursuant to Commission direction in D.04-12-047. Although SDG&E's next COC application was scheduled for its test year 2011, Ordering Paragraph 4 of D.05-12-043 provided SDG&E an option to file a test year 2007 COC application. This option was authorized so that SDG&E may update risk and debt equivalency impacts on its ROE, if deemed necessary by SDG&E.

On March 27, 2006, Southern California Edison Company (SCE) filed Application (A.) 06-03-029 seeking authority to waive its test year 2007 COC application and requested that a workshop be scheduled to address concerns about the appropriateness and relevance of the financial models used to support returns on common equity by the utilities, interested parties and Commission. On March 30, 2006, Pacific Gas and Electric Company (PG&E) filed A.06-03-030 seeking the same results as SCE.

III. Request

SDG&E seeks authority to defer its option to file a test year 2007 COC application pending Commission resolution of SCE and PG&E's applications seeking waivers from filing their test year 2007 COC applications. To the extent that waivers are granted to SCE and PG&E, SDG&E seeks a one year deferral of its option to file a COC application to test year 2008 from test year 2007. To the extent that SCE and PG&E are denied waivers, SDG&E seeks a 30 day extension of time after resolution of this petition to exercise its option to file a test year 2006 COC application.

IV. Discussion

COC applications of the major energy utilities are traditionally consolidated into one proceeding to provide for a more efficient and consistent process.¹ This consolidation process enables the major energy utilities, Commission, and other parties that typically participate in COC proceedings to conserve their resources.

SDG&E seeks a deferral of its option to file a COC application pending resolution of SCE and PG&E's waiver requests to avoid processing its COC application on a stand alone basis. Aglet Consumer Alliance (Aglet) and the Utility Reform Network (TURN) jointly oppose SDG&E's petition as "unnecessary."

Subsequent to SDG&E's filing of its petition, SCE and PG&E were granted waivers from filing test year 2007 COC applications pursuant to D.06-08-026,

¹ See for example D.05-12-043, dated December 15, 2005 and D.04-12-004, dated December 16, 2004.

dated August 24, 2006. SCE and PG&E's next COC applications are scheduled to be filed on May 8, 2007 for test year 2008.

SDG&E should be treated no differently than SCE and PG&E. Consistent with D.06-08-026 and to conserve resources, SDG&E's petition to defer its option to file a test year 2007 COC application one year to test year 2008 should be granted.

V. Comments on Proposed Decision

The proposed decision of the Administrative Law Judge (ALJ) in this matter was mailed to the parties in accordance with Section 311 of the Public Utilities Code and Rule 14.2(a) of the Commission's Rules of Practice and Procedure. Comments were filed on _____, and reply comments were filed on _____ by _____.

VI. Assignment of Proceeding

Michael R. Peevey is the Assigned Commissioner and Michael J. Galvin is the assigned ALJ in this proceeding.

Findings of Fact

1. SDG&E is required to file a COC application every five years, unless ordered otherwise by the Commission.
2. SDG&E last filed a COC application in 2005 for test year 2006.
3. SDG&E's next scheduled COC application is 2010 for test year 2011.
4. Ordering Paragraph 4 of D.05-12-043 provides SDG&E an option of filing a test year 2006 COC application to update risk and debt equivalency impacts on its ROE.
5. SDG&E seeks authority to defer its option of filing a test year 2007 COC application pending Commission resolution of SCE and PG&E's applications seeking a waiver from filing their test year 2007 COC applications.

6. Aglet and TURN jointly oppose SDG&E's petition as "unnecessary."
7. Decision 06-08-026 granted SCE and PG&E waivers from filing test year 2007 COC applications.
8. SCE and PG&E's next scheduled COC applications are due May 8, 2007 for test year 2008.
9. COC applications of the major energy utilities are traditionally consolidated to enable the major energy utilities, Commission, and other parties that typically participate in COC proceedings to conserve their resources.

Conclusions of Law

1. SDG&E's petition should be granted as set forth below.
2. This decision should be effective today.

O R D E R

IT IS ORDERED that:

1. Ordering Paragraph 4 of Decision 05-12-043 is modified to read "SDG&E shall calibrate its market Indexed Capital Adjustment mechanism to conform to this decision. Although its next full ROE review is not due until 2010 for test year 2011, SDG&E may file a Cost of Capital (COC) Application by May 8, 2007 for test year 2008. If SDG&E decides not to file a COC application by that date, its next COC application shall be due on May 8, 2010 for the test year 2011."
2. Application (A.) 05-05-006, A.05-05-011, and A.05-05-012 are closed.

This order is effective today.

Dated _____, at San Francisco, California.

INFORMATION REGARDING SERVICE

I have provided notification of filing to the electronic mail addresses on the attached service list.

Upon confirmation of this document's acceptance for filing, I will cause a copy of the filed document to be served upon the service list to this proceeding by U.S. mail. The service list I will use to serve the copy of the filed document is current as of today's date.

Dated September 15, 2006, at San Francisco, California.

/s/ ELIZABETH LEWIS
Elizabeth Lewis

***** SERVICE LIST *****

Last Update on 23-AUG-2006 by: CPL
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