COM/CXW/mnt **ALTERNATE DRAFT**

Agenda ID #3937
(Alternate to Agenda ID #3936)
Ratesetting

Decision **ALTERNATE PROPOSED DECISION OF COMMISSIONER WOOD**
Mailed ________

BEFORE THE PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

Application of SOUTHERN CALIFORNIA GAS COMPANY for authority to update its gas revenue requirement and base rates. (U 904 G)	Application 02-12-027 (Filed December 20, 2002)
Application of SAN DIEGO GAS & ELECTRIC COMPANY for authority to update its gas and electric revenue requirement and base rates. (U 902-M)	Application 02-12-028 (Filed December 20, 2002)
Investigation on the Commission's Own Motion into the Rates, Operations, Practices, Service and Facilities of Southern California Gas Company and San Diego Gas & Electric Company.	Investigation 03-03-016 (Filed March 13, 2003)

(See Appendix A for a list of appearances.)

PHASE ONE DECISION
COST OF SERVICE TEST YEAR 2004 FOR
SOUTHERN CALIFORNIA GAS COMPANY AND SAN DIEGO GAS & ELECTRIC COMPANY

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PHASE ONE DECISION COST OF SERVICE TEST YEAR 2004 FOR SOUTHERN CALIFORNIA GAS COMPANY AND SAN DIEGO GAS & ELECTRIC COMPANY

I. Summary

In this decision, the Commission establishes the authorized base electric and gas revenue requirements for Southern California Gas Company (SoCalGas) and San Diego Gas & Electric Company (SDG&E) in the consolidated applications for Test Year 2004 Cost of Service. This decision rejects the two proposed partial Settlement Agreements filed in these proceedings. Phase 1 of these proceedings was submitted on February 19, 2004.

We authorize for SoCalGas $1,465.6 million in natural gas distribution revenues for Test Year 2004. We authorize SDG&E $731.2 million in electric distribution revenues and $208.2 million in natural gas distribution revenues for Test Year 2004.

Note that this alternate was prepared by using the proposed decision as a starting point. We are continuing to review the draft, and may make additional changes, based on comments.

II. Overview of the Applications

SoCalGas and SDG&E filed individual applications seeking to revise their base rate revenue requirements effective January 1, 2004, and seeking authority to establish a formula to adjust the revenue requirement for 2005 through 2008. The applications did not propose joint rates or a single common revenue requirement. Pursuant to Rules 45 and 55 of the Commission’s Rules of Practice and Procedure (Rules),[1] a joint motion for consolidation of the separate applications was filed concurrently with SoCalGas' A.02-12-027 and SDG&E's A.02-12-028 on December 20, 2002, respectively, for authority to update their gas and electric revenue requirements and base rates. SoCalGas requested an approximate $130 million increase in natural gas distribution revenues for Test Year 2004 and SDG&E requested an approximate $58.9 million increase in electric distribution revenues and $21.6 million increase in natural gas distribution revenues for Test Year 2004. In addition, both companies sought authority for "Margin Per Customer" (MPC) indexing mechanisms. The two companies' requested revenue requirements included virtually all their expenses for operation, maintenance, safety, and general expenses. By Ruling, the applications were consolidated on January 22, 2003. On March 13, 2003, the Commission issued Order Instituting Investigation (I.) 03-03-016 to allow the Commission to hear proposals other than the applicants', and to enable the Commission to enter orders on matters for which the utilities may not be the proponent.

These applications were not filed in conformance with the Commission's rate case processing plan, as discussed below. They are in conformance with specific exemptions granted as a part of previously adopted incentive ratemaking mechanisms.

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[1] Unless otherwise noted all subsequent references to Commission Rules are to the Commission's Rules of Practice and Procedure published as of May 2003.

The requests by both companies for indexing mechanisms and all consideration of any form of incentive ratemaking is in Phase Two of these proceedings.[2]

III. The Framework for These Cost of Service Proceedings

In these cases, as in all others brought under the various provisions of the Public Utilities Act, we seek to promote the public interest. This involves balancing the interests of numerous stakeholders -- residential, business and agricultural end-use customers; utility investors and employees; utility managers; providers of energy services; exponents of environmental and social concerns. In these cases, where we determine the pricing of electric and gas distribution service, we are dealing with essential services that are critical to the well being of our entire state. Through local franchises and the orders of this Commission, California has entrusted management of this infrastructure to the stewardship of SoCalGas and SDG&E, subject to our ongoing regulatory oversight. These two companies are pervasive presences in their communities, and a vital force in the economy of California. We intend to hold them to a high standard of service quality, and we expect prudent and effective management of the financial and human resources we have placed under their control. Under these conditions, we intend to provide sufficient revenues to meet the costs of providing quality service.

SoCalGas and SDG&E enjoy an effective monopoly in the provision of electric and gas distribution service. (C.f., Pub. Util. Code[3] §§ 330(f) (electric)

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[2] Ruling Clarifying the Scoping Memo and Modifying the Schedule dated May 22, 2003. We affirm the deferral in this decision.

and 328 and 328.2 (gas, added by Statutes 1999, Ch. 909, effective January 1, 2000).) This means not only is each the sole provider of the service in its respective territory, but also each has exclusive control over the costs and conditions of such service and, importantly, control over the information about costs and conditions. In order to prevent abuse of this monopoly and its incidents, the Legislature has given the Commission broad powers of investigation intended to make the real costs and conditions of monopoly service transparent. We exercise those powers to assure consumers that the prices they pay for monopoly service are in fact just and reasonable, that they are in fact reasonably related to costs prudently incurred by efficient, conscientious managers to provide the quality of service we expect. This is at the core of our responsibilities.

The schedule adopted in these proceedings[4] reflected the stress and strain on the resources of the Office of Ratepayer Advocates (ORA), the Commission's internal analytical and investigative body, that have been sorely tested by the workload before the Commission. We were further constrained by the fiscal crisis in recent California that has seen the staff of the entire agency, including our industry advisory divisions, shrink dramatically and the operating budget shrink alarmingly, and thus hampered the ability of this agency to exercise its role in an optimal fashion. Of necessity, not choice, we address Phase One revenue requirements after the start of the test year. In 2003, the Commission

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[3] Unless otherwise noted, all Code references are to the California Public Utilities Code.

[4] April 22, 2003 Assigned Commissioner's Ruling Establishing Scope, Schedule and Procedures for Proceeding (Scoping Memo), and as modified by the May 22, 2003 Ruling Clarifying the Scoping Memo and Modifying the Schedule (Clarifying Ruling).

staff, including ORA, was stretched by concurrently processing major rate proceedings not only for SoCalGas and SDG&E, but also for PG&E for a Test Year 2004 and Southern California Edison Company (Edison) for a Test Year 2003.

In D.97-07-054 (73 CPUC 2d, 469), the Commission first adopted an incentive ratemaking mechanism for SoCalGas and suspended for the life of the mechanism the requirement to file a general rate case (GRC) . (Ordering Paragraph (OP) 8, 73 CPUC 2d, at 535).) In D.01-10-030, the commission provided a one-year for a five-year rate period that was to expire on December 31, 2002. For SDG&E, the requirement to file a general rate case for Test Year 1999 was suspended by D.97-12-041 (77 CPUC 2d, 139) and the company was ordered to file a "cost-of-service showing" as a part of the performance based ratemaking (PBR) form of incentive ratemaking mechanism in a proceeding ordered by D.94-08-023.[5] This latter decision adopted an "experimental" mechanism as an alternative to the traditional proceeding. SDG&E's last-adopted incentive ratemaking mechanism was to remain in effect through 2002 and was extended by the same D.01-10-030 through 2003, along with SoCalGas.

In D.97-04-085, the Commission had found that the typical GRC requirements were a burden on the limited resources of staff and parties because

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[5] OP 4: "The requirement set forth in Appendix B of Decision (D.) 89-01-040 *(30 CPUC 2d 576)* that SDG&E file a general rate case application with a proposed test year three years from the last adopted test year used by the Commission in setting SDG&E's existing rates is waived. Subject to further order of the Commission, SDG&E shall, in accordance with D.89-01-040, file a general rate case application with a proposed test year of 1999." (55 CPUC 2d 592.)

of the workload imposed by the implementation of electric restructuring.[6] We now have the opportunity and obligation to re-establish a rigorous and appropriate review for both SoCalGas and SDG&E when they next file applications seeking to revise their base rate revenue requirements. Accordingly, SoCalGas and SDG&E must comply fully with the extant general rate case processing plan (rate case plan) requirements when they next file, regardless of the outcome or precise nature of the incentive mechanism, if any, which may be adopted in Phase 2 of these proceedings. As a further requirement, we direct SoCalGas and SDG&E to provide the Notice of Intent (NOI), a draft of the intended application, required by the rate case plan to The Utility Reform Network (TURN) and the Utility Consumers' Action Network (UCAN) and other intervenors. We will allow those intervenorrs to provide a list of filing deficiencies to the applicants along with ORA. We add this requirement in light of the very detailed and significant analysis performed by intervenors in this Phase 1 and in light of the detailed discovery that they conducted.

We expect the rate case filings of the utilities to be the very best of estimates, supported with competent and detailed planning and analysis of the most likely image of the test year. Over time, errors in that image tend to correct in the next test year; actual expenses that are higher or lower than forecast help shape the next estimation, and differences in plant additions to rate base are reflected in the actual balances on the balance sheet. We must rely completely on the representations of SoCalGas and SDG&E, and the vigorous critique of all

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[6] Reference to D.97-04-085 within D.97-12-041, (77 CPUC 2d 138, 142). See also Finding of Fact 2, D.97-04-085 (72 CPUC 2d 348, 352).

intervenors, to develop a detailed record to justify the rates that we impose on retail customers. In the next comparable rate proceedings for SoCalGas and SDG&E, we direct the applicants to demonstrate that they performed the tasks, provided the services, replaced, repaired or installed the facilities, and employed the people as authorized by this decision to provide safe and reliable service at the adopted rates.

IV. Legal Standards

A. The Public Utilities Act

Under the Public Utilities Act, our primary purpose "is to insure the public adequate service at reasonable rates without discrimination..." Pacific Telephone and Telegraph Company v. Public Utilities Commission (1950) 34 Cal.2d 822, 826 (*PacTel 1*); Pacific Telephone and Telegraph Company v. Public Utilities Commission (1965) 62 Cal.2d 634, 647 (*PacTel 2*); City and County of San Francisco v. Public Utilities Commission (1971) 6 Cal.3d 119, 126 Pub. Util. Code sections 451 and 453 set out this basic obligation. Under § 451, public utilities may demand and receive only just and reasonable charges, and they must provide "adequate, efficient, just, and reasonable service" in a way that promotes the "safety, health, comfort, and convenience of [their] patrons, employees, and the public." Pub. Util. Code section 453 prohibits undue discrimination in either rates or service.

Under Pub. Util. Code section 454, public utilities must make a showing to the Commission that any proposed rate change is justified, and receive a finding by the Commission to that effect, before making such change. Under §§ 701 and 728, the Commission has the authority to determine what is just and reasonable, and to refuse to permit recovery of costs not found to be just and reasonable. In particular, the Commission "... has the power to prevent a utility from passing on to the ratepayers unreasonable costs for materials and services by disallowing expenditures that the Commission finds unreasonable." *Pactel 2* at 647.

Our obligation to the residents of California is to ensure that SoCalGas and SDG&E provide adequate service at just and reasonable rates. As we use the term, adequate service encompasses all aspects of the utilities' service offering, including but not limited to safety, reliability, emergency response, public information services, new customer connections, and customer service. In addition, we assume that a utility that provides adequate service is in compliance with laws, regulations, and public policies that govern public utility facilities and operations. *In re Pacific Gas and Electric Company*, D.00-02-046, at Section 4.2 (hereafter "*PG&E*")

In carrying out our obligation, we assess and determine the reasonable costs of providing the adequate service that utility customers are legally entitled to receive and provide an opportunity for recovery of those costs in rates. The activities of establishing cost transparency and articulating criteria for reasonableness are central to the regulatory enterprise for franchised utilities. These activities give the ratepaying public confidence that they are getting what they are paying for, and that what they are paying is reasonable in amount and reflects prudent management by the entities entrusted with providing essential services. As we noted in *PG&E*, the decision resolving PG&E's 1999 Test Year General Rate Case:

> … In this case, as in all others brought under the Public Utilities Act, we seek to promote the public interest. This involves balancing the interests of numerous stakeholders -- residential, business and agricultural end-use customers; utility investors and employees; utility managers; providers of energy services; exponents of environmental and social concerns. In this case, which deals with the pricing and quality of electric and gas distribution service, we are dealing with essential services, infrastructure

> that is critical to the well-being of our entire state. Through local franchises and the orders of this Commission, California has entrusted management of this infrastructure to the stewardship of Pacific Gas and Electric Company, subject to our ongoing regulatory oversight. PG&E is a pervasive presence in our communities, and a vital force in the economy of Northern California. We intend to hold PG&E to a high standard of service quality, and we expect prudent and effective management of the financial and human resources we have placed under its control. Under these conditions we intend to provide sufficient revenues to meet the costs of providing quality distribution service. We seek to strengthen the partnership between the public and PG&E. *PG&E* at Section 4.1.

We make the same commitments in this case to the customers of SDG&E and SoCal Gas.

The activities of precisely estimating cost and linking cost with service quality are particularly important for SoCal Gas and SDG&E, because for the many long years of <u>de facto</u> deregulation, the Commission did not undertake any meaningful independent scrutiny of these utilities' costs and did not make the formal "just and reasonable" and "adequacy" determinations for them. Now, as we said in *PG&E*:

> …[w]e intend to pursue a policy which balances maintaining reliability and quality of the integrated distribution system with cost discipline and accountability.

PG&E, at Section 4.9

B. Scoping Memo

Making explicit the required nexus between reasonable costs and adequate service was a particular concern of the Assigned Commissioner in this case, and was expressly made a part of the proceeding by the *Assigned Commissioner's Ruling Establishing Scope, Schedule and Procedures for Proceeding* (hereafter "*Scoping*

Memo") issued on April 2, 2003. The *Scoping Memo* specifically directed the parties to address a number of questions that elaborated on the nexus between cost and service quality in the context of a renewed commitment to cost of service regulation. Scoping Ruling in A.02-12-027 and A. 02-12-028 dated April 2, 2003. In particular there were five areas that called for elaborate supplemental testimony by SDG&E and SoCal Gas:

3.1. Investment Planning

> My objective is to determine how SDG&E is, and how it should be, positioning itself to resume provision of fully integrated electric utility service. Testimony should make recommendations for overall Commission policy on the utility's role in providing retail service over the next ten years. I invite testimony that examines SDG&E's organizational structure, internal resources, and decision-making processes for planning and investment activities. Parties should also submit proposals on how the Commission should structure and oversee SoCalGas and SDG&E's investment planning process.

3.2. Safety and Reliability

> We also need an examination of SoCalGas and SDG&E's safety, reliability, and maintenance standards and performance. ORA, TURN, and unions can be expected to address similar issues. I anticipate parties will offer comparisons of the companies' reliability standards with those of other utilities. Parties should propose an appropriate level of maintenance expenditures, including recommendations for parts of the two natural gas systems, and SDG&E's electric system, where maintenance concerns should be targeted.

3.3. Customer Service

> I invite proposals that evaluate and suggest improvements to SoCalGas and SDG&E's customer service programs. Testimony

> should evaluate current PBR customer satisfaction standards, compare SoCalGas and SDG&E's standards to those of other utilities, and make recommendations on new standards and performance measures. Parties should assess the effectiveness of SoCalGas and SDG&E's billing system, website, and call center to meet customer needs, including web-based contacts and responses, 800 telephone numbers, call management systems, and voice mail.
>
> I am particularly interested in proposals regarding the need for localized customer service, such as neighborhood customer service centers and outreach efforts to local communities. Proposals should include recommendations regarding the maintenance and improvement of current outreach programs.
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> **3.4. Utility Operations**
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> In these COS proceedings, I would like to develop a consistent overall policy for how SoCalGas and SDG&E undertake their operations. In considering this policy, I ask the parties to examine the decision-making processes the utilities use to determine how to provide safe and reliable service to customers at a reasonable cost. Parties should provide testimony on how these 2004 test year applications fit in within the utilities' established decision-making process.
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> **3.5. Diversity, Outreach, Contributions, and Minority Contracting**
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> Consistent with the February 13, 2003, Scoping Memo for A. 02-11-017, SoCalGas and SDG&E should serve supplemental testimony regarding its workforce diversity over the last 10 years, as well as present and future plans regarding workforce diversity.

Scoping Memo at Section 3.

The scoping memo, as a procedural device for shaping the issues in a Commission proceeding, was made a part of the Commission's practice in rate proceedings by Chapter 856 of Stats. 1996 (SB 960 (Leonard)) which added Pub. Util. Code sections 1701.1 and 1701.5. Section 1701.1 provides in pertinent part:

> (b) The commission upon initiating a hearing shall assign one or more commissioners to oversee the case and an administrative law judge where appropriate. The assigned commissioner shall schedule a prehearing conference. The assigned commissioner shall prepare and issue by order or ruling a scoping memo that describes the issues to be considered and the applicable timetable for resolution.

This provision enables the parties and the assigned commissioner to shape the issues proactively, and not be passive recipients of an agenda shaped solely by a utility-initiated application submitted months in advance pursuant to the Rate Case Plan.

Section 1701.5 provides in pertinent part:

> 1701.5. (a) Except as specified in subdivision (b), in a ratesetting or quasi-legislative case, the commission <u>shall resolve</u> the issues raised in the scoping memo within 18 months of the date the scoping memo is issued, unless the commission makes a written determination that the deadline cannot be met, including findings as to the reason, and issues an order extending the deadline. No single order may extend the deadline for more than 60 days.

This provision of the statute is clear that the issues identified in the scoping memo must be addressed and resolved. They are not optional or peripheral. The failure of parties and applicants in this case to engage and create a record on which the *Scoping Memo* issues can be addressed substantively by the Commission requires that a Supplemental Phase of this proceeding be established.

C. Burden of Proof

Sempra Energy, through its subsidiaries SoCal Gas and SDG&E enjoys an effective monopoly in the provision of gas distribution service in Southern California. Pub. Util. Code sections 328 and 328.2 , added by Statutes 1999, Ch. 909, effective January 1, 2000 (AB 1421, Rod Wright). SDG&E enjoys a similar monopoly for electric distribution service. C.f., Pub. Util. Code Sections 330(f), AB 1890 (Brulte). This means not only that it is the sole provider of the service, but also that it has exclusive control over the costs and conditions of such service and, importantly, control over the information about costs and conditions. In order to prevent abuse of this monopoly and its incidents, the Legislature has given the Commission broad powers of investigation intended to make the real costs and conditions of monopoly service transparent. We exercise those powers to assure the public that the prices they pay for monopoly service are in fact just and reasonable, that they are in fact reasonably related to costs prudently incurred by efficient, conscientious managers to provide the quality of service we expect. This is at the core of our responsibilities.

This creates a natural "litigation advantage" enjoyed by utilities,[7] and the fact that we must rely in significant part on their experts, reinforces the importance of placing the burden of proof in ratemaking applications on them. ORA reminds us of this in its opening litigation brief[8] and while we are mindful

[7] This advantage is discussed at length in D.00-02-046, a recent rate case for PG&E.

[8] ORA opening litigation brief, at pp. 10-11.

of this, it is important to note that the intervenors, including ORA must assist us by raising credible questions of fact or reasonable policy objections.

TURN argues in its opening litigation brief[9] that:

> "the Commission's own evidentiary obligation. Pub. Util. Code § 1757(a)(4) provides that the Commission's findings in a decision must be supported by substantial evidence in light of the whole record. The Commission has interpreted this substantial evidence standard as follows:
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>> "We have a regulatory responsibility to ensure [SoCalGas] provides adequate service at just and reasonable rates, and we must view the facts accordingly. Our legislative mandate encompasses promoting the "safety, health, comfort, and convenience of [SoCalGas'] patrons, employees, and the public." (See § 451.) "In construing substantial evidence, we must consider all factors that may have a bearing on this goal." (D.01-10-031, p. 5.)

Similarly, the Commission must have "adequately considered all relevant factors, and [have] demonstrated a rational connection between those factors, the choice made, and the purposes of the enabling statute to survive judicial review." (See D.01-10-031, p. 5 (citing *Calif. Hotel & Motel Assoc. v. Industrial Welfare Comm'n* (1979) 25 Cal.3d 200, 212.) It is through the critical analysis of the utilities' showings, the presentation of witnesses and exhibits by the intervenors and ORA, and through their cross-examination of the utilities, that the Commission gains another perspective on the evidence and can weigh the facts

[9] TURN opening litigation brief, pp. 6 and 7.

and the policy options to reach the necessary findings of fact to support its decision.

SoCalGas and SDG&E have the sole obligation to provide a convincing and sufficient showing to meet their burden of proof, and any active participation of other parties can never change that obligation. This was clearly described in D.87-12-067[10] as follows:

> "The inescapable fact is that the ultimate burden of proof of reasonableness, whether it be in the context of test year estimates, prudence reviews outside a particular test year, or the like, never shifts from the utility seeking to pass it costs of operations onto ratepayers on the basis of the reasonableness of those costs." And further:
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> "The longstanding and proper rule is set forth in D.90642 at 2 CPUC 89, 98-99 and requires that the utility meet its burden by clear and convincing evidence. To meet this burden we have specified that "… the applicant must produce evidence having the greatest probative force.""

As we stated in *PG&E*, we do not approach or apply the burden of proof in a formulaic manner. The litigation game disserves the Commission and the public if it fails to provide the Commissioners with a sound, substantive basis for determining the costs of service and making them transparent and assessing the quality of service that consumers are provided when they pay those costs. The relative disparity in access to information and analytical capabilities between utilities and representatives of the public -- whether they be our staff at ORA or

[10] D.87-12-067, 27 CPUC 2d, 1, 21, and footnote 1 at p. 169.

intervenors -- requires that we place the "risk of non-persuasion" on the utility. In this proceeding, in many instances, SoCal and SDG&E have presented us with evidence that is adequately supported and intellectually rigorous. The existence of objections or alternative point of view put forward by other parties does not in and of itself effectively controvert the utility applicants' showing. But the absence of challenge does somewhat undermine our confidence that the information we have is in fact sufficient to support the decision.

In some basic respects, a ratecase is the public's opportunity to do "due diligence" on the business operations and practices of the entities to whom we have entrusted the task of providing us with essential services. We have too many examples, including some very close to home in San Diego, where a failure to do effective, critical due diligence over a number of years has led to catastrophic consequences. Our detailed description and determinations about costs as reflected in the utility's accounts should be considered in this light. We commit to do our best, but we have not been placed in the best position to accomplish it, in the very fundamental areas cited above from the Scoping Memo, based on the record before us.

For that reason, we will provide an additional opportunity to address these issues in the current docket. We will establish a third phase, to further address the significant issues. We expect the utilities to enhance the showings that they offered in their supplemental testimony, and we will rely on ORA and other intervenors to fully engage in the issues, and help us to develop the record we need to provide due diligence.

V. Procedural History

The assigned administrative law judge (ALJ) held prehearing conferences (PHCs) held on February 19, 2003, March 7, 2003, and September 26, 2003.

The commission conducted public participation hearings in August and September 2003, in SoCalGas' service territory in Van Nuys, El Monte, Carson, and San Bernardino, and in SDG&E's service territory in San Diego and San Clemente, and evidentiary hearings on Phase One distribution service revenue requirements issues beginning October 7, 2003, for a total of 20 days of hearings. Settling parties filed opening briefs on January 20, 2004 (discussed further with the partial settlements). On February 4, 2004, non-settling parties filed opening briefs, and all parties filed reply briefs on February 19, 2004.

Testimony was received in evidentiary hearings from numerous witnesses, and over 300 exhibits were received in evidence.[11] All issues are ready for consideration with the exception of the issues involving SoCalGas and SDG&E's requests for incentive ratemaking mechanisms and the methodology for future attrition adjustments. These questions were deferred to Phase Two by the May 22, 2003 *Ruling Clarifying the Scoping Memo and Modifying the Schedule*.

D.03-12-057 granted interim rate relief to SoCalGas and SDG&E[12] by establishing memorandum accounts to track any eventual difference in current rates and any increase or decrease adopted by this decision for Test Year 2004.

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[11] Without separately counting errata, SoCalGas and SDG&E sponsored 150 exhibits of direct and rebuttal testimony; ORA, 33 direct and cross-examination exhibits; TURN, 60 direct and cross-examination exhibits and UCAN, 47 direct and cross-examination exhibits.

[12] April 18, 2003, SoCalGas and SDG&E filed a Motion seeking reconsideration of the April 2, 2003 Scoping Memo. The May 22, 2003 Ruling clarified the Scoping memo as appropriate and D.03-12-057 was necessary to grant the interim relief request.

VI. Partial Settlements

On December 19, 2003, SoCalGas and SDG&E filed Motions for adoption of partial settlements (hereafter, partial settlements or Proposed Settlements) on Test Year 2004 revenue requirements.[13] In addition to the motions, SoCalGas and SDG&E also filed the Settlement Agreements and Joint Settlement Comparison Exhibits. UCAN did not join in either settlement. The Federal Executive Agencies (FEA) filed a late comment[14] in which it supported the SDG&E Partial Settlement. UCAN filed joint-testimony with TURN in both applications, but UCAN is a non-settling party to both SoCalGas and SDG&E and the two partial settlements. TURN is also a non-settling party with SDG&E by not settling in compromise with its joint UCAN testimony regarding SDG&E's application. (TURN did settle with SoCalGas.)

By a December 4, 2003 Ruling, the ALJ directed all parties to file and serve as appropriate on January 20, 2004: (1) responses or comments in opposition to the partial settlements or, (2) for the settling parties, opening briefs in support of

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[13] Pursuant to Rule 51.1(c) of the Commission's Rules of Practice and Procedure, the first motion was filed by SoCalGas, ORA, TURN, Utility Workers Union of America (UWUA), Local 483 UWUA (Local 483), Southern California Generation Coalition (SCGC) and Greenlining Institute (Greenlining) (collectively the "SoCalGas settling parties") addressing Phase One of the above-captioned SoCalGas Cost of Service (COS) proceeding and the second motion was filed by SDG&E, ORA, Greenlining, Coral Energy Resources, LP (Coral), and the Coalition of California Utility Employees (CUE) (collectively, the "SDG&E settling parties") addressing Phase One of the above-captioned SDG&E COS proceeding. When referring generally to both settlements, the two groups are collectively the settling parties.

[14] On January 30, 2004, FEA filed a Motion to file late-filed comments on the SDG&E partial settlement. Its comments were limited to indicating its decision to join the settlement.

their positions as litigated without regard to the partial settlements, and (3) non-settling parties were to file opening briefs in support of their positions as litigated on February 4, 2004. All parties were allowed to file replies to the comments in opposition to the partial settlements concurrently with replies to positions as litigated on February 19, 2004.

Some of the settling parties did file briefs on their litigation positions (opening litigation briefs). Applicants SoCalGas and SDG&E, UCAN and ORA filed extensive opening litigation briefs. Coral, Greenlining and Southern California Generation Coalition (SCGC) filed opening litigation briefs limited to the areas of their unique interests but did not address the total test year revenue requirements. TURN, as required for settling parties, filed an opening litigation brief for SoCalGas on its litigation positions but did not address SDG&E in the same brief where it is not a SDG&E settling party. All other settling parties waived filing opening litigation briefs.

Non-settling parties filed responses to the partial settlements. UCAN filed an extensive opposition to the SDG&E Settlement. TURN filed an opening brief as a non-settling party for SDG&E. Because TURN and UCAN jointly sponsored witnesses in both proceedings, and given the numerous similarities between the two applications, UCAN's opposition is broadly applicable to the SoCalGas partial settlement. No other party filed in opposition to the partial settlements. On April 13, 2004, SDG&E filed a motion seeking leave to file minor errata to the SDG&E Partial Settlement. On April 27, 2004, UCAN filed a response to this motion, and on April 29, 2004, SDG&E filed a reply. We accept the errata, and affirm the ALJ's May 12, 2004 ruling granting SDG&E's motion.

A. The Partial Settlements are not Reasonable

All of the active parties to the proceeding were put on notice that neither the Assigned Commissioner Carl Wood, nor that the assigned ALJ would consider a "black box" settlement.

> "With respect to these cases in particular, and especially with respect to San Diego Gas & Electric's cost of service, I'm told that that utility has not had a fully-litigated GRC, or its equivalent, since I think 1984. There have been settlements that have been litigated up to a certain point, and I'm certainly not hostile to settlements. I think that is a fine way to conclude proceedings, but the one caveat to that is I, at least, as an Assigned Commissioner, I'm going to insist that any settlement be fully rooted in the record, and fully supported by a record.
>
> "I'm very hostile towards black-box settlements that it is impossible to figure out what the basis for reaching a certain result or conclusion is. I think particularly in light of the fact that this isn't just a renewal of something we did three years ago, but we don't really have a good understanding or analysis of the cost of that company's doing business, then it is going to be particularly important to have a good record.
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> "So I am going to urge that the Judge ensure that there be a strong record on all the points, all the important points in the case." (Commissioner Wood, Transcript of February 7, 2003, at pp. 5 – 11.)

The parties were advised again about attempting to settle the cases without clearly resolving all of the issues.

> "… my concern would be that in order to recommend adoption of the settlement even if it is an all-party settlement, I would need to be able to find the settlement to be reasonable and in the public interest. And I would certainly advise that more detail is better than less, particularly in terms of resolving where in fact there is an agreement on the level of effort to be put into certain programs … There are a lot of finite issues here as to whether the company should or should not undertake certain tasks or how much of an effort those tasks should entail. And a settlement that doesn't address in detail the expectations of the company's performance in the test year would be possibly problematic." (ALJ Long, Transcript of November 13, 2003, at pp. 2174 – 2175.)

> "I probably expressed most of my fundamental concerns, which is (sic) having sufficient detail either to propose a decision based on the litigated position of the parties …(or) to be able to address a proposed settlement in sufficient detail that it's reasonable to find it in the public interest and also that it would provide sufficient guidance to the utilities of the Commission's expectations for the test year, the level of service, the types of programs that are in fact acceptable to the Commission. So my concern about high level summarization is that it leads directly to a lot of black box outcome that makes it difficult in a subsequent proceeding to determine how well the applicants actually performed compared to expectation, as to the scope and scale of their new programs or maintenance of the system and being a reasonable system operator." (ALJ Long, Transcript of November 13, 2003, at pp. 2183 – 2184.)

> "I see our obligation to adopt a revenue requirement for the company that is prescriptive not only to how much money we think they should collect in rates for the test year, but for what purpose. And so that, then, leads to accountability and measurement of corporate stewardship for the next time we

> have a rate proceeding, because otherwise, we could end up in a process where we never have a good basis for saying: what have they actually accomplished compared to expectations in order to … set new expectations in subsequent proceedings?" (ALJ Long, Transcript of November 14, 2003, at p. 2203.)

Based on these concerns and following a careful review, we reject the Proposed Settlements because they do not resolve all of the issues, and more importantly the parties failed to provide sufficient detail in stipulating to specific expectations. The proposed Settlements would provide ratepayers no assurance that the money they would pay in rates is the right amount necessary to receive safe and reliable service and no comfort that the applicants would in turn be obligated to perform all reasonable tasks necessary to provide safe and reliable service and to make necessary capital expenditures. As discussed in detail elsewhere in this decision, the disputes concerning the size of the workforce, the compensation of the workforce and the form of compensation are not adequately resolved. Too many settlement provisions are unsubstantiated compromises where the only item settled is a dollar allowance without explaining how, and justifying why, the settlement differs in scope and scale of the work or task to be performed from the applicants' end-of-litigation positions. ORA proposed in its Opening Litigation Brief that the rates adopted here should remain in effect until the next general rate proceeding, which ORA suggests should be in 2008 or 2009.[15] These two partial settlements are simply inadequate foundations for the next five or six years.

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[15] ORA litigation brief, at p. 13.

UCAN aggressively opposed the Partial Settlement for SDG&E in its filing.

> "ORA and SDG&E have entered into a Settlement that awards SDG&E excessive increase that is not justified by the evidentiary record and cannot be afforded by a community hit hard by rate increases since the 2000-2001 Energy Crisis. Moreover, the failure of the Settlement to incorporate the many efficiencies that should have been brought by a merger, a reorganization and technology-driven productivity is a fatal flaw that undermines the very foundation of the Settlement.
>
> "One of the primary obstacles presented by the Settlement Agreement is its lack of specificity. Judging from the Settlement and its accompanying exhibits, UCAN is unable to establish the basis for the proposed revenue requirement agreed to by the two primary parties." (UCAN Comments,[16] p. 2.)

UCAN also objected that the partial settlement increases SDG&E's distribution revenues by 27.3% over its 2001-recorded costs that, according to UCAN, equates to an annual increase in *electric* operations costs of almost 7%. We are concerned that any increase (or decrease) needs to be thoroughly supported in the record of the proceeding and that we can set reasonable performance goals for SDG&E, and by logical extension, SoCalGas too.

UCAN identified five basic deficiencies with the SDG&E Partial Settlement:

1. Annual revenue requirement is not supported by the record;

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[16] Comments of UCAN in Opposition to the Partial Settlement of the SDG&E Cost of Service Application dated January 20, 2004.

2. Failed to incorporate productivity gains that were ordered by the Commission and/or could be reasonably imputed;

3. Failed to address controversy over corporate center costs allocated to the SDG&E by Sempra Energy;

4. Did not adequately address the specific adjustments proposed by UCAN and FEA and;

5. Imposing costs on ratepayers contrary to Commission policy.

We considered UCAN's five points, and the responses of the settling parties, and other relevant factors as we reviewed both the litigated positions of the parties and the limited justifications that are included in the partial settlements.

ORA and SoCalGas and SDG&E argue that the partial settlements "reflect hundreds of hours of negotiation"[17] and the Commission should not "cherry-pick." The settling parties miss the point; the Commission decides issues of fact and policy, not the parties. ORA argued against UCAN's opposition by stating "The Commission can, and should, note that ORA is a signatory to this settlement, and thus from ORA's perspective ratepayers will be better off if this settlement is adopted."[18] ORA proceeded to argue that it considered whether the

[17] Amongst several cites, see p. 2 of ORA's February 19, 2004 Reply.

[18] ORA's February 19, 2004 Response to Non-Settling Parties, p. 11.

Commission would adopt various recommendations or not[19] and so argued that settling was in the ratepayers' interest.

> "Would ORA have liked it if the settlement negotiations had ended up at a lower revenue requirement as UCAN suggests they should have? Yes, of course. However, given the record compiled in this proceeding, and the <u>limited willingness of SDG&E to reduce its revenue requirement</u>, we find the revenue requirement reflected in the settlement to be reasonable, fair, and acceptable." (ORA's February 19, 2004 Response to non-settling parties, p. 22.) (Emphasis added.)

We will not adopt a revenue requirement based upon an assessment of litigation risk and the "willingness" of the utilities to compromise; we will only adopt an appropriate revenue requirement justified as reasonable in light of the entire record, with adequate revenues for the provision of safe and reliable service.

B. The Greenlining Institute and SoCalGas and SDG&E Settlement Agreement

SoCalGas and SDG&E included in the partial settlements an additional agreement with Greenlining addressing Workforce Diversity, Supplier Diversity, and Philanthropy.[20] Greenlining and the applicants are the only parties to the agreements. The agreements between the utilities and Greenlining make four commitments on work force diversity, supplier diversity, philanthropy and

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[19] For example, "ORA reviewed Mr. Woychik's recommendations and concluded that the probability that the Commission would adopt UCAN's position on these issues was nearly zero…" (ORA's February 19, 2004 Response, p. 13.) UCAN's recommendation is discussed in the appropriate section of this decision.

[20] Attachment C to both proposed Settlement Agreements.

annual meetings. Appendix G to this decision incorporates the Greenlining/Sempra Settlement Agreement.

1. Workforce Diversity

Under the terms of the proposed settlement, SoCalGas and SDG&E would provide to Greenlining workforce diversity data in the same format as provided to *Fortune Magazine* for its annual diversity survey, unless the Commission mandates a similar format for reporting to the Commission. SoCalGas and SDG&E would make "their very best good faith efforts to be in the top ten 'Best Companies for Minorities'" as measured by *Fortune Magazine* and to be a leader among California Utilities.

2. Supplier Diversity

Greenlining wanted 25% of SoCalGas and SDG&E's suppliers to be minority businesses. SoCalGas and SDG&E made no specific commitment in the proposed settlements to Greenlining other than to "continue to discuss the viability of this objective" and to comply with the existing obligations of General Order (GO) 156.[21]

3. Philanthropy

Greenlining proposed in testimony[22] that SoCalGas and SDG&E should be ordered by the Commission to make philanthropic contributions equal to either the compensation of the "top ten executives" or 2% of pre-tax earnings, and

[21] GO 156: Rules Governing the Development of Programs to Increase Participation of Women, Minority and Disabled Veteran Business Enterprises in Procurement of Contracts from Utilities as Required by Pub. Util. Code §§ 8282 - 8286.

[22] Exhibit 900, Updated Testimony of John C. Gamboa, pp. 11-12.

further, 80% of the contributions should be "allocated to the needy." Under the Settlement Agreement, the Utilities reaffirm their commitment to improve upon their outreach efforts to racial and ethnic minority groups, including low income and underserved communities and to improve upon philanthropic stewardship within each utilities' communities. Additionally, Sempra agrees to provide Greenlining with a detailed reporting of philanthropy with a description of each relevant organization and the total charitable contribution amounts.

4. Annual Meetings

SoCalGas and SDG&E committed in the proposed settlement with Greenlining that the chief executive officer of both companies "and/or" the president, and Sempra's senior vice president of human resources will attend an annual meeting with Greenlining to discuss workforce diversity, supplier diversity and philanthropy.

5. Discussion

We applaud the companies' commitment to improve workforce diversity, supplier diversity and philanthropy. In D.04-07-022, in Edison's GRC, with respect to philanthropy, we acknowledged that the Commission has no jurisdiction to order changes to a utilities giving practices. Unlike in the Edison GRC proceeding, here the Settlement Agreement does not ask the Commission to link executive compensation with philanthropy. As such, we find no reason why we cannot endorse the settlement as agreed upon by Sempra and Greenlining[23]. We take this opportunity to commend the companies for working to improve in

[23] Appendix G of this decision incorporates the Sempra/Greenlining Settlement Agreement.

areas this Commission does not have jurisdiction through partnerships and collaboration with groups and organizations. As such, we fully endorse the Sempra/Greenlining Agreement and include it in Appendix G to this decision.

VII. Test Year Forecast Methodology

SoCalGas and SDG&E used the following method to estimate Test Year 2004 expenses: Both SoCalGas and SDG&E identified, a Base Year 2001 of recorded data and then adjusted for known downward changes for one-time or non-recurring expenses; the companies then escalated the residual base Year for inflation in 2002, 2003 and Test Year 2004. To this adjusted base, SoCalGas and SDG&E added any forecast for new activities begun in 2002, 2003 or forecast for 2004. This addition was in 2004 dollars. The escalated base year with the two adjustments for changes formed the basis for the test year estimate. SoCalGas and SDG&E then provided testimony to justify the level of activity and the purpose of the activity represented by the estimate. This is similar to a "budget-based" method that the Commission has previously found to be reasonable if properly applied (see *Southern California Edison*, 64 CPUC 2d 241, 316 (D.96-01-001) or *California Water Service Company* D.03-09-021, mimeo., pp. 35 and 36.) Where SoCalGas and SDG&E used a different method to forecast Test Year 2004 they provided a specific explanation and offered a justification for that method. The appropriateness of this method depends upon a thorough review of the supporting data.

ORA varied its methodology, from account-to-account as discussed in detail where applicable.

TURN raised what it believed were serious concerns about the SoCalGas and SDG&E forecast methodology, including its development of Base Year 2001 costs. It cited the large number of adjustments and reallocations made by

SoCalGas and SDG&E[24] and pointed out that recorded 2002 data, available late in the proceeding, were different than the forecast 2002 expenses, one step towards estimating Test Year 2004.

UCAN made similar objections to the Base Year 2001 and subsequent forecast method used by SDG&E; again, we will work with the data we have available. UCAN also argued that the rate application as filed is an inadequate base for rates to be in effect for five years.[25]

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[24] TURN opening litigation brief, pp. 9-13.

[25] UCAN opening litigation brief, p. 42.

VIII. Return to the Rate Case Processing Plan

The applications filed by SoCalGas and SDG&E were not subject to a preliminary review by ORA. For a general rate case, this typically involves the applicant filing a NOI, which is in effect a draft application. This was true for PG&E (A.02-11-017) and Edison, A.02-05-004. Under the rate case processing plan,[26] ORA must review the NOI and provide a timely list of requirements, "deficiencies," which the applicant addresses in order to file an acceptable application. This step was omitted under the procedure adopted by D.97-12-041. The lack of a NOI greatly hindered the timely and thorough review of the applicants' filings, leading to ORA and other intervenors spending too much time on discovery of data that should have been addressed in the applications and supporting work papers. Based upon our current experience in litigating these two proceedings we believe that the filing requirements for SoCalGas and SDG&E's subsequent change in authorized base electric and gas revenue requirements should revert to the extant rate case processing plan. The lack of the NOI process this time had the direct effect of increasing the difficulty for ORA and the other intervenors to justify through litigation their exceptions to the applications. The burden of proof lies fully on the applicants, notwithstanding the expertise of ORA and others to effectively critique and challenge the applicants' filing. See the extensive discussion of our policy in D.00-02-046 including this excerpt:

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[26] See D.89-01-040, 30 CPUC 2d 576, in R.87-11-012.

> "Pursuant to Section 309.5, consumer interests are now represented by Commission staff dedicated to the goal of the lowest possible rates consistent with safe and reliable service. Consumer interests are also represented by effective consumer organizations which are experienced in the complexities of utility regulation and which, in some cases, are supported in part by a statutory plan of compensation of intervenors who contribute substantially to Commission's decisions. Still, even today, it is our experience that in comparison to other parties, utilities typically are better able, and have the greater incentive, to muster a large arsenal of resources to support their proposals." (D.00-02-046, mimeo., p. 35.)

Nothing about this requirement in anyway prejudges the nature of any likely incentive mechanism that may yet be adopted in Phase 2 of this proceeding.

TURN, in its opening litigation brief for SoCalGas, argued that the cost of service filings by SoCalGas and SDG&E are "the worst rate case(s)" experienced by its expert consultants, and that "a number of issues were omitted due to the (TURN) witnesses simply running out of time."[27] Without reaching that harsh a conclusion, the record as discussed throughout this decision, supports a prompt return to the rate case processing plan, with a thorough review at the NOI phase, to ensure the rates for SoCalGas and SDG&E are set at a fair and reasonable level, and to ensure that these proceedings can be litigated thoroughly and efficiently.

In the partial settlements, the parties agree that SoCalGas and SDG&E will file a NOI as a part of the next cost of service or GRC (General Rate Case)

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[27] See TURN opening litigation brief, at p. 4 and p. 1, respectively.

application, in a manner and on a schedule consistent with the provisions of the rate case plan adopted in D.89-01-040, as modified by the Commission."[28] We however are going further; and direct SoCalGas and SDG&E to file GRCs in compliance with D.89-01-040, as modified. We also direct that TURN, UCAN and other intervenors shall be allowed to review the NOI and may provide a list of deficiencies to ORA's project manager for possible inclusion in the NOI deficiencies notice in addition to those identified by ORA.[29]

SoCalGas and SDG&E should file their applications in accordance with the rate case processing plan as modified here for a Test Year 2008, not 2009 as proposed.

IX. Agreement Between Litigants

In the December 19, 2003 Joint Comparison Exhibits, both SoCalGas and SDG&E show the "agreed changes" based upon litigation, to the applications. We need not discuss the changes and justifications in detail; we can recognize them as stipulations. Some of the changes are corrections of errors, which is not

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[28] SDG&E Settlement Agreement, p. 15.

[29] We do not need to separately modify the rate case processing plan in order to impose this additional requirement or provision on the next SoCalGas and SDG&E general rate cases. This is consistent with Conclusion of Law 1(c) and (d) in D.89-01-040:

"c. DRA's project manager should be the designated coordinator for transmitting NOI deficiencies. Utilities should be allowed to appeal DRA's list of deficiencies by filing a protest with the Executive Director. The Executive Director's determination should be final.

d. DRA's project manager should have primary responsibility for accepting changes to the utility's NOI filing. Utilities should be allowed to appeal DRA's determination by filing a formal motion for the acceptance of NOI changes." (DRA was a predecessor to ORA.)

unexpected in filings as complex as these. There are also changes that are incorporated by SoCalGas and SDG&E in their end-of-litigation revenue requirement spreadsheets which detail the recommendations of parties other than ORA. SoCalGas and SDG&E explain one specific change further in the Opening Litigation Brief:[30]

> "SDG&E and ORA agreed that an adjustment in SDG&E's requested revenue requirement in this case of $3,356,000 is appropriate to resolve reconciliation of SDG&E's 2001 adjusted recorded figures in this case to its general ledger and FERC forms. Therefore, SDG&E has incorporated adjustments totaling that amount in various accounts shown in the SDG&E Comparison Exhibit, Exh. 150."

This adjustment addresses a major issue between ORA and SDG&E, and the effect is included within the overall agreed changes summarized in the table, below.

Joint Comparison Exhibits Summary of Agreed Changes Test Year 2004		
Area	SoCalGas	SDG&E
Miscellaneous Revenue	$2,724,000	-$7,000
Operating & Maintenance	-19,499,000	-10,433,000
Escalation (Note 1)	-1,592,000	-492,000

[30] Sempra opening litigation brief, p. 118-119. "The adjustments are as shown as Agreed-to Changes in Chapter 2 of Exh. 150, as follows: $360,000 in Account 903.1 on p. 17; $76,000 in Account 910 on p. 18; $113,000 in Account 920 on p. 19; $2,178,000 in Account 921A and $6,000 in Account 921E on p. 20; $1,000 in Account 923 on p. 21; $83,000 in Account 925A on p. 23; $84,000 in Account 926 on p. 24; $203,000 in Account 930A on p. 25; and $252,000 in Account 935 on p. 26 (see also Exh. 150 at p. 160)."

Reassignments	1,365,000	
Depreciation	-151,000	-45,000
Taxes	10,785,000	-1,128,000
Return – related to Rate Base Reductions of $15,006,000	-1,302,000	
Return – related to Rate Base Reductions of $11,025,000		-967,000
Base Margin Change	**-$7,670,000**	**-$13,073,000**

X. Escalation

There are three primary escalation factors for the test year: labor, non-labor, and capital additions. Only ORA and SoCalGas and SDG&E address these items in testimony and briefs.

A. Labor

ORA's labor escalation forecasts are based on Global Insight's First Quarter, 2003 forecast of Average Hourly Earnings for workers in the Electric, Gas, and Sanitary Services sectors of the U.S. economy (AHE49NS). SDG&E used an earlier First Quarter 2002 forecast. SoCalGas used a different Global Insight forecast, UCIS, instead of the AHE49NS survey and ORA used the same source too, but a more recent forecast. SoCalGas and SDG&E argued that their forecasts for Test Year 2004 more closely reflect the actual rate of wage rate changes experienced in 2002 and 2003 and should be adopted ahead of ORA's more recent data. ORA only argued that its data is more recent. We agree with SoCalGas and SDG&E that the forecasts must be relevant to the expected outcome; considering the recent trends in their own labor costs is a valid tool to use in conjunction with the surveys. SoCalGas and SDG&E have the ability to affect their labor costs in contract negotiations and by either filling or leaving positions vacant. We have adopted the agreed upon litigation positions that include the impacts of litigation.

SoCalGas and SDG&E, s discussed argued in the next section, that the more recent non-labor estimate should be used because it is more recent; but they argue the older labor escalations are a more reasonable fit.

B. Non-Labor

SoCalGas and SDG&E in the Opening Litigation Brief in one sentence defer to ORA's "more recent data." ORA provided a more complete argument, consistent with its use of more recent labor escalations. ORA concurred with SoCalGas to use a new index (JGTOTALMS), which is a UCIS-constructed index the use of which was adopted by the Commission in D.98-01-014, in SoCalGas' PBR mechanism. SDG&E used the same index for its gas non-labor escalation, which was also used for its PBR, also in D.98-01-014. For the electric non-labor escalation, SDG&E used five sub indices from Global Insight's UCIS. SDG&E then abandoned this position in its opening litigation brief (p. 305). For SDG&E, ORA's more recent data yields a higher 2004 escalation rate for gas and electric, but a lower rate for SoCalGas. Consistency should be our goal, and here both applicants and ORA support the more recent non-labor forecast using ORA's data. We adopt the agreed upon non-labor escalation rates.

C. Capital Projects Escalation

SDG&E and SoCalGas used the Handy-Whitman construction cost indexes for the Pacific region to compare capital additions across years and to adjust capital additions in years before 2004 to 2004 dollars. ORA agreed with the use of these indices but argued in its brief to use a more recent First Quarter 2003 survey. For the two non-labor indices, the 2002 survey results in a lower rate than the first Quarter 2003. We will adopt the First Quarter 2003-based escalation rates. Absent other arguments, we favor the most recent forecast over older data.

In adjusting the SoCalGas and SDG&E spreadsheets to prepare this decision, we discovered that the escalation rates as argued by SoCalGas and SDG&E were not the rates used in preparing the end-of-litigation revenue requirements. We correct this error and use the rates as litigated and adopted. There is a difference between the applicants briefs and the comparison exhibit. We rely on the applicants' worksheets for the agreed upon escalation rates.

XI. Employee Total Compensation

In compliance with prior decisions, SoCalGas and SDG&E prepared a total compensation study with the concurrent participation of ORA.[31] The study determined that the employee salaries for both companies were within a 2.8% range for SoCalGas and a 0.5% range for SDG&E of the studies' "market prices" for the positions reviewed.[32] The record in this proceeding does not indicate ORA's specific degree of participation, but no one including ORA objected to the process or the study's results. We will rely on the study for the purposes of adopting labor expenses for Test Year 2004 subject to the other adjustments elsewhere in this decision for the number of employees found to be reasonable for the test year.

SoCalGas and SDG&E compensate many of their employees with a combination of "base salary" and "incentive" components. Depending on the position, the incentives may be an annual or a long-term incentive. In addition, employees receive various other medical benefits and pension benefits discussed elsewhere in this decision. ORA and other parties, including TURN and UCAN through their common consultant, as well as FEA, UWUA and Local 483 raised other specific objections about the number of employees reflected in the

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[31] Hewitt Associates. See ORA references in Exhibit 302, p. 18-1. See also Appendix I to SoCalGas Exhibit 12 and SDG&E Exhibit 34 for the respective November 22, 2002 Final Report by Hewitt Associates.

[32] Study, p. 3, in Exhibits 12 and 34.

SoCalGas and SDG&E test year requests. Those issues are resolved in the discussion of the appropriate accounts or capital.

ORA raised an objection to the incentive component of employee compensation. For all management/Supervisor full-time positions and senior executives, the employee's compensation has an incentive component that SoCalGas and SDG&E included in the test year forecast. For SoCalGas, there are 629 positions in the program out of a total 6,466 total employees and 363 out of 3,365 for SDG&E, which are about 10% of the workforce. Implicit in this forecast method is that over and under-performances would balance and actual total payments would reflect the total of all target incentives included in rates. There is a further assumption for estimating labor costs by account that all employees would earn their individual "target" incentive. By illustration, if $100,000 were found to be the market salary based on the study, a hypothetical eligible employee could receive $80,000 as a "base" and the $20,000 balance in the "target" incentive. SoCalGas and SDG&E include the full market salary in the test year estimates as combined base and incentive. Based on actual performance, actual individual employees could earn more or less than the target. ORA proposed a disallowance of 50% of all incentive allowances forecast for the test year. The very limited testimony[33] in support of this disallowance relied on the application of a disallowance adopted in D.00-02-046 for PG&E, which in turn was previously adopted in D.86-12-095.[34]

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[33] Chapter 14 in ORA Ex. 301 and Ex. 302 for SoCalGas and SDG&E, respectively.

[34] D.95-12-055, 63 CPUC 2d 570, 592 and D.86-12-095, 23 CPUC 2d 149, 187.

ORA prevailed in the PG&E cases where "incentives" were included for senior executives. The unique circumstances in PG&E's instance beginning in the mid 1980s have not been shown by ORA to apply to SoCalGas and SDG&E in 2001, the study period. There was no other persuasive linkage offered by ORA of the PG&E case to the ones before us now. SDG&E has used an incentive component in employee compensation since 1988 and SoCalGas has had a program for all non-represented employees since 1997, which follows from the Sempra merger. We find the two instances, for SoCalGas and SDG&E, to be distinguishable from past PG&E applications. PG&E was proposing to recover expenses assigned to a few executives, whereas SoCalGas and SDG&E have a wider program affecting all manager/supervisor employees.

On cross-examination, the ORA witness testified[35] that in the hypothetical as used above, she would not object to a $100,000 salary that was based on the study if it were all "base" pay. But she would recommend a 50% disallowance ($10,000 of $20,000) of any "incentive" component of the same otherwise fair market salary. The disallowance was characterized by ORA as a "policy" recommendation, consistent with ORA's position in the PG&E proceeding. We will not adopt this adjustment because ORA has not shown that conditions in the labor market or the behavior of SoCalGas and SDG&E adequately mimic the conditions that applied to PG&E.

The unrefuted testimony is that SoCalGas and SDG&E and ORA collaborated on a salary study to determine fair market salaries in the service territories. It is not reasonable to then disallow a portion of the fair market salary

[35] Transcript Volume 22, November 7, 2003, p. 2002, line 5 to p. 2003, line 9.

simply because SoCalGas and SDG&E use an incentive mechanism within that fair market salary range. No testimony was offered to suggest that SoCalGas and SDG&E unfairly evaluate and overpay employees or withhold earned incentives. We have no basis to disallow the usage of an incentive component to the total compensation as long as that total compensation is reasonable.

In D.97-07-054,[36] a performance-based ratemaking decision for SoCalGas, the Commission made adjustments where it found the total executive compensation was significantly above market,[37] while declining to interfere with the "mix" of compensation components: "We concur with (SoCalGas) that as long as its total compensation levels are appropriate we will not dictate how (SoCalGas) distributes compensation among various types of employment benefits." In that case, rejecting recovery of stock options as was proposed by TURN, would have put the compensation package unfairly below market.

Other testimony and cross-examination in this proceeding showed that parties were concerned that the test year estimates assumed all positions were fully paid at "target" and all positions were presumed to be filled, an unlikely dual occurrence leading to an excessive test year expense allowance in rates.

The partial settlements do not persuade us that the included labor estimates are right, only that they are compromises made by the parties in the face of assessing their respective litigation risks. The partial settlements do not promise to actually employ all the people represented by the dollars allowed for labor. TURN proposed a generic allowance for vacancies, realizing that it was

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[36] 1997 Cal. PUC LEXIS 751; 179 P.U.R.4th 237.

[37] Conclusion of Law 30.

highly unlikely that SoCalGas and SDG&E would have all positions filled all of the time and colorfully concluded that:

> "Sempra's dog – in the form of its new fancy HR computer program – has eaten its homework. Despite our obvious interest, the Sempra utilities have lost the ability to tell us how many vacancies they have at any given time, past or present."[38]

Based on this asserted inability to report true vacancy counts, TURN proposed a 1.5% reduction factor to labor costs, payroll taxes, workers' compensation, and benefits (medical, dental, vision, etc.). However, TURN did not provide any basis for 1.5% compared to any other allowance.

The companies will be allowed to collect in rates for Test Year 2004, a maximum of $371,939,000 for SoCalGas and $175,246,000 for SDG&E, which is the labor component in the litigated proceedings as modified herein[39] by account, as shown in the adopted Test Year 2004 results of operations. This is less than SoCalGas and SDG&E's litigation positions.[40]

SoCalGas and SDG&E offered testimony that they did not always recover all labor costs in the past. But it is also possible that by selectively choosing not

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[38] Ex. 501, pp. 35 –36. TURN cites to UCAN DR 10-8, TURN DR 5-5 and 5-8 regarding SoCalGas.

[39] By comparison, in the Proposed Settlements, after escalation, SoCalGas' 2004 labor costs would be $351,720,000 and SDG&E's would be $156,641,000. Source: Response 2 filed January 16, 2004 to the December 13, 2003 ALJ First Request for Information on the Proposed Settlements.

[40] SoCalGas asked for $342,745,000 before escalation (i.e., in 2001 dollars) at the end-of-hearings compared to the settlement's $318,011,000 and SDG&E asked for $159,628,000 compared to $141,628,000. Source: Response 2 to ALJ First Request for Information.

to fill authorized Test Year 2004 positions, the companies can bolster future earnings by pocketing the savings. Labor costs are more than just numbers in arcane Commission decisions; labor costs included in retail rates should be real jobs that affect peoples' lives and the local economies in the service territories of SoCalGas and SDG&E. We need to ensure that all the dollars we take from ratepayers for labor costs that go to pay the employees who are necessary to provide safe and reliable service.

We do not want or intend to manage the thousands of individual hiring and compensation decisions necessary to operate SoCalGas and SDG&E, and we do not do that here. It is SoCalGas and SDG&E's responsibility to make those decisions and this decision gives them sufficient discretion and the funding to make the right decisions. Although the applicants may briefly benefit if the actual expenditures are lower than those presumed in rate base (because a return is included in rates based on those estimates), they also bear the risk of capital expenditures exceeding the forecast.[41] This is a normal rate case forecast risk. Additionally, rate base is adjusted to actual costs every time we re-examine the companies in a general rate case. Therefore, it is reasonable to follow traditional ratemaking forecast practices for rate base related expenditures in these proceedings.

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[41] To the extent that some labor is capitalized as a result of crediting (reducing) an expense account, SoCalGas and SDG&E are to capitalize the actual labor costs incurred for capital items and expense the appropriate amount of actual labor costs incurred.

A. SoCalGas and SDG&E Incentive Compensation

Both companies offer incentive compensation as part of their employee compensation programs. The companies maintain significant discretion as to how these incentives are rewarded, each year. SDG&E offers an Incentive Compensation program for non-represented employees, and a Pay-for-Performance program for represented employees. SDG&E also offers Long-Term Incentives to non-represented employees. SoCalGas only offers incentive compensation to non-represented employees. For Test Year 2004, SDG&E seeks $33,259,000 for its short-term incentives, including $863,512 for Spot Cash awards to well-performing employees. SDG&E also seeks $2,914,281 to fund Long-Term Incentive Compensation plans. SoCalGas seeks $19,000,021 for short-term incentives, including $566,854 for Spot Cash awards, and $2,708,827 for Long-Term Incentive Compensation. Neither company provided justification for the specific estimates that they offered.

The companies assert that these bonuses are important not only to maintain their competitive positions in the labor markets from which they draw employees, but also to link employee's total compensation more strongly to the operational and financial performance of the companies. The companies revise their incentive plans, annually. The annual plans typically include operational and financial measures and an individual and/or team performance component. Financial measures focus employees on a common set of financial goals, such as net income. The long-term programs are designed to enable key management employees to share in the company's growth through equity grants.

Several parties (ORA, FEA, TURN, UCAN, and Local 483) advocate significant reductions in this area. ORA states that it does not oppose the payment of incentives, but argues that since many of the performance indicators incur to the benefit of shareholders as well as ratepayers, that shareholders should bear 50% of the cost. In addition, these parties point to the large number of unfilled positions and assert that the companies are likely to over-collect, if the Commission were to approve the full revenue requirement in this area. Local 483 would go much further, advocating that all of the incentive funds for SoCalGas should be disallowed.

Several of the contesting parties point to recent decisions in which the Commission has adopted a 50-50 split. These include Pacific Gas and Electric Company (PG&E) rate case decisions in 1995 (D.95-12-055) and 2000 (D.00-02-046). In the most recent PG&E rate case (D.04-05-055), the Commission adopted a non-precedential settlement, and the decision did not address this issue. The parties to this proceeding did not have the benefit of being able to cite our recent rate case decision concerning Southern California Edison Company (SCE). In D.04-07-022, we did not reject or seek to reverse this policy. However, we concluded that under circumstances of SCE's program as reflected in the record in the underlying proceeding, a shareholder-ratepayer split was not warranted.

The record in this proceeding does support adherence to the Commission's policy of requiring a 50-50 split. Most significantly, the record shows that employees are to be rewarded for efforts to receive results that benefit both ratepayers and shareholders. The companies can change the specific criteria (and arguably the weighting of important values) on an annual basis. We are not in a position to determine a precise weighting of the benefits, and a 50-50 split remains appropriate. In addition, as TURN points out, the record indicates that even if the companies only made payments at half the forecast level (a result that we neither encourage nor endorse), the companies' total compensation would still be "at market" range. Further, the fact that the record does not contain a clear explanation of how the companies produced the estimates provided for these programs militates in favor of splitting the cost.

The companies suggest that such a split is improper because over a four year period from 1998 to 2001, both companies exceeded their performance targets and exceeded their pay-out targets (by a four-year total of $18.716 million for SoCalGas and $24.426 million for SDG&E). However, the record does not tell us what the performance targets were during those years, what the pay-out criteria were at the time, or how those targets or criteria compare to the companies' plans during the Test Year. To the extent that the criteria were linked to performance of the companies, then the extra payments, during those earlier years, may reflect good news not only for the recipient employees, but for the shareholders, as well.

In the case of SDG&E, some of the revenues would be used to provide Incentive Compensation to non-represented employees, while some would be used to provide Pay-for-Performance incentives to represented employees. By imposing a 50-50 split, the Commission does not want to inadvertently interfere with the collective bargaining process by requiring a 50-50 split for revenues needed to support Pay-for-Performance. However, the record does not allow us to separate the estimate for Pay-for-Performance from the overall estimate for incentive compensation. In addition, the record does not inform us as to whether the concern about affecting collective bargaining applies, in this instance. Thus, we will impose the 50-50 split for all allowed incentive costs for SDG&E, as well as SoCalGas (which does not offer incentive compensation to represented employees.

B. Maturing Work Force

SoCalGas and SDG&E forecast, as a fairly consistent factor in expense accounts, an allowance for the phenomena of the "maturing work force," where the companies claimed that an increased and disproportionate percentage of the employees are now entering their retirement-eligible days. And, much like the "aging infrastructure" also discussed in many accounts, there is a need to train and replace experienced people. The intervenors did not address this factor systemically; instead, their reaction was spread through all accounts. ORA summarized its position in its opening litigation brief as disallowing $2.4 million for SoCalGas in Account 879. The record shows $1.022 million in SDG&E's estimates in Accounts 586 and 887.

ORA argued that as a part of its analysis it asked for support substantiating the requested increases for a maturing workforce, any analyses performed by SoCalGas and SDG&E for industry comparison purposes, and any historical data showing how this affected SoCalGas and SDG&E in the past. ORA concluded applicants only provided some internal studies and responses to ORA's questions that failed to persuade ORA that the concern was justified. ORA argued that it found the historical trend for SoCalGas for the years 1993, 1995, 1997, 1999, 2001, 2002, and year to date 2003 only demonstrated that the number of employees actually retiring does not show an upward trend,[42] and in fact the trend has been decreasing from 316 FTE's in 1993 to 99 FTE's in 2002.

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[42] Ex. 301, footnote 19, p. 8-14; reference to ORA Data request 157, Q. 5.

With respect to SDG&E, ORA pointed out that it had made the same claim in A.91-11-021, for its 1993 Test Year rate proceeding, and that in this instance, the witness for SDG&E testified the problem began 1998. Moreover the witness was unaware of the same SDG&E claim in 1991.[43] In response to specific Accounts (SoCalGas 879 and 586) which we'll address below, Sempra provides information to show that for field service employees and electric meter testers, there is a growing number of employees eligible to retire. Unfortunately, in cross examination, Sempra witnesses acknowledged that the applicants had not analyzed the percentage of eligible-to-retire employees who actually retire.[44] However, we cannot discount the fact that the work force in field service & distribution operations and electric meter testers, there is a need to ensure that there is an increase in apprentice classes in anticipation of retirements.

The majority of the increases requested because of the maturing workforce phenomena relate to training, supervisory and extra employees to offset lower productivity with newer employees. The benefits of ensuring proper staffing levels and necessary training for new employees far outweighs the potential risks associated with a reduced and less-trained workforce. We will reject disallowances based merely on maturing workforce and instead assess proper staffing levels based on expected need.

C. Pension and Benefits (Account 926)

Pension and benefit expenses can be addressed as a joint issue for SoCalGas and SDG&E and any unique circumstances identified in the test year

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43 ORA opening litigation brief, pp. 192-193.

44 Transcript, p. 318, lines 12 – 19.

estimates. In total, the litigation differences between applicants and ORA are $17.976 million, and $20.112 million, for SoCalGas and SDG&E, respectively.[45] We will also address the issues as litigated by other parties: TURN, UCAN and FEA.

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45 Joint Comparison Exhibits.

D. Pension (Account 926.206)

Pension expense in a ratesetting environment is the current cost necessarily recoverable in rates that the utility contributes to a fund to benefit eligible employees when they retire. The testimony in this proceeding focused on the expected costs based on the number of employees, the nature of the benefits, the earnings performance of the pension funds, and the legal requirements to make contributions to the pension funds. At the end of litigation, SoCalGas and SDG&E requested $4.3 million and $25.1 million subject to balancing account treatment based upon contributing the minimum required contributions as required by Internal Revenue Service (IRS) Code Section 412 (Minimum Funding Standards) as amended by the Employee Retirement Income Security Act of 1974 (ERISA-minimum contributions).[46]

Several recent changes were also of concern to parties. For example, the utilities changed from a “defined benefit” plan to a “cash benefit” plan. ORA was also concerned that the reorganizations that have occurred following the Sempra merger and the shuffling of functions back and forth between the parent and the utilities gave may have resulted in cost shifting between regulated and unregulated activities.

First, we will adopt a balancing account for both SoCalGas and SDG&E in order to ensure that ratepayers only pay the minimum necessary pension contributions. As we discuss below, with the benefit of balancing accounts we can adequately resolve the issues surrounding the correct test year estimate.

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[46] Sempra opening litigation brief, p. 275.

1. Conversion to a Cash Benefit Plan

SoCalGas and SDG&E argued that neither ORA or FEA demonstrate that the conversion to a Cash Benefit adversely affects pension contributions.[47] The applicants argued there are two benefits from the conversion, employees "enhanced visibility of the status of their individual retirement accounts" and their benefits are portable, they go with an employee who leaves SoCalGas or SDG&E before retirement.[48] SoCalGas and SDG&E argued the conversion had a lower cost compared to retaining the old plan. ORA argued that the conversion required Commission approval, and until we approve the conversion, the plan and the related test year forecast, should be rejected.[49] ORA cited no precedent or other statutory requirement for this position. ORA argued that it objected in the last SDG&E proceeding, but as SoCalGas and SDG&E pointed out in their brief, that rate case was settled and so the positions of the parties were not evaluated by the Commission and can add no value to this proceeding's record. We reject the suggestion that we must approve a plan change before it can go into effect; certainly the plan may change for various reasons, as a result of legislation or collective bargaining, for example. We do have the obligation to determine that the expense included in the test year is reasonable and necessary. ORA raised no valid criticism of the plan conversion.

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[47] Sempra opening litigation brief, p. 277.

[48] Ex. 105, p. JPT-5 and 106, p. JPT-4; an issue not explained in direct testimony, but included in rebuttal. In fact, the quote above is the only description of "enhanced visibility," and there is no use of the term in the transcripts.

[49] Ex. 302, pp. 17-3 and 17-7 and Ex. 301, p. 15-8.

ORA proposed a lower contribution based upon its lower labor cost (lower total number of employees). The pension balancing accounts proposed by SoCalGas and SDG&E will correctly compensate for both the actual number of employees and the actual contributions made to the funds. We find that by limiting the recovery to the lowest legally required funding, the companies are made whole and the ratepayers are protected from the vagaries of forecasting.

2. Reorganization Impacts on Pension Expense

ORA expressed a fear, which it did not explore, that as a result of the reorganization of company operations after the merger and between regulated and non-regulated affiliates, the pension fund assets and obligations are not adequately segregated.[50] ORA may pursue this issue in the next proceeding but we make no finding now that SoCalGas and SDG&E have done anything inappropriate.

3. Other Pension Issues

As a result of adopting the balancing account for actual pension contributions, except for the specific issues we discuss in this decision, we reject all other pension-related disallowance recommendations.

4. Recoverability of Pension Expenses in Rates

UCAN argued that SDG&E had not justified as reasonable why ratepayers should bear in rates the costs of pension contributions, and argued that no contributions had been made in recent years, therefore this was new expense and its benefits are unrelated to current customers. UCAN also argued that pension

[50] Ex. 302, p. 15-7.

funds had a recent "financial boon" (the trust fund had performed well earning good returns) and will rebound again so no funding is needed now.[51] SDG&E argued that it is entitled to all of its reasonable costs and expenses[52] and that includes any pension expenses it may incur in 2004.

SoCalGas and SDG&E demonstrated that in recent years they did not need to make contributions but in 2004 they expect a minimum contribution to be required. No party argued that the funds were mismanaged of the pension funds, and except for the other issues already addressed, the test year estimate for both companies is reasonable, subject to the balancing account. Therefore it is reasonable to allow SoCalGas and SDG&E to recover the minimum contributions in retail rates as a part of the cost of providing service to customers.

5. Supplemental Pension Requests

SoCalGas and SDG&E both requested funding for a "supplemental" program described as necessary to "restore pension benefits to key management employees that would otherwise be lost due to statutory limits under the regular pension plans."[53] TURN and UCAN opposed a benefit limited to a select group of employees, and argued it was discretionary and excessive. SoCalGas and SDG&E responded that 320 active and retired employees at both companies and Sempra corporate center participate. SoCalGas and SDG&E cited D.88-08-061 (29 CPUC 2d 63, 139) as an example of the Commission's longstanding practice

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[51] Ex. 604, pp. 212 and 212.

[52] Sempra Opening Litigation Brief, p. 281, quoting D.03-02-035, which in turn relied on *Pacific Tel. & Tel Co. v. Public Util. Comm'n* (1965) 62 Cal.2d 634, 644.

[53] Sempra opening litigation brief, p. 281, and citing IRS Code § 401(a)(17)(A).

of authorizing a reasonable request for supplemental (executive) retirement plan costs.

We find that TURN and UCAN have not shown the expense forecast to be in error nor is this forecast in excess of fair market compensation levels when examined in conjunction with other components of the compensation package, and so we will adopt the forecasts of $1.165 million and $0.554 million for SoCalGas and SDG&E, respectively. We will require SoCalGas and SDG&E to include these costs in the minimum contribution pension balancing accounts already adopted in this decision.

6. Corporate Center Pension Expenses

SoCalGas and SDG&E requested $1.092 million and $725,000 in pension costs, and $1.87 million and $1.24 million in supplemental pension costs, for Corporate Center employees. ORA opposed any recovery of Corporate Center pension expenses, asserting it could not reconcile the allocation of costs.[54] We address recovery of Corporate Center costs in another section, but we will allow actual costs in the minimum contribution pension balancing accounts to the extent the cost is based on the allowance of other Corporate Center costs. By limiting recovery to the legally necessary minimum contribution for the entire company, we have a reasonable proxy for the allocation of costs between Corporate Center and other utility operations.

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54 Ex. 301, p. 15-4 and Ex. 302, p. 17-4. Sempra opening litigation brief at p. 282 reverses the citations.

7. Conclusion

We adopt for ratemaking purposes $4.3 million and $25.1 million, respectively for SoCalGas and SDG&E, subject to balancing account treatment in the adopted minimum contribution pension balancing accounts and limited to actual costs based upon contributing the minimum required contributions as required by IRS Code § 412 Minimum Funding Standards as amended by the Employee Retirement Income Security Act of 1974, the ERISA-minimum contributions. This is not an upper limit; if the actual minimum contributions and other actual costs are greater, SoCalGas and SDG&E may seek recovery subject to the standard reasonableness review requirements for a balancing account.

E. Medical Benefits

After pension expenses, ORA's largest benefit adjustment was for medical expenses. The companies argued that they have kept costs low in recent years as a result of negotiating rate caps with their health care insurance providers. The last contracts expired in 2003. SoCalGas and SDG&E negotiated new contracts with Blue Cross, Kaiser and PacifiCare so that their revised Test Year 2004 estimates are $39.075 and $26.2 million, respectively.[55]

ORA argued that the new rates (as originally forecast at $44.534 million and $29.014 million) essentially reflect the deferral of costs from the prior capped years representing "an inter-generational cross-subsidy for Blue Cross 2000 –

[55] Ex. 103 and Ex. 102, pp. GJR-16 – GJR-20 in both exhibits. These estimates assume 5,711 current and 1,302 new employees for SoCalGas, and 4,094 current and 717 new employees for SDG&E.

2003 deficits and may constitute retroactive ratemaking."[56] ORA argued the caps were artificially low in 2001 through 2003, citing actuarial reports which indicated the actual costs (for Blue Cross) were higher than premiums, thus leading directly to large increases for 2004. ORA concludes "if SoCalGas had not negotiated rate caps and had paid the true increase in actual costs during 2001 – 2003, then it would be proposing a dramatically less increase for 2004." ORA recommended that expenses should only reflect the increase over 2003 actual costs.[57] The arguments are the same with respect to SDG&E.

SoCalGas and SDG&E responded that 2004 premiums only reflect market rates as paid by other subscribers, and that Blue Cross' plans for 2004 are the low-cost provider and no higher than others without prior year caps.[58] SoCalGas argued its 2002 costs were $4,304 per employee while a national average was $5,508.[59] We note that this comparison (made for the higher original estimates) is mid-cap for SoCalGas and does not address Southern California health care costs specifically nor does it provide comfort with respect to the current contract and 2004 market rates. It tends in fact to support ORA's position more than it does their own. ORA did not update its own position. Reluctantly, we look to the Proposed Settlement Agreement and we find that after allowing for other adjustments to employee numbers (to the extent they are or are not delineated and justified) ORA accepted the updated contract rates.

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[56] Ex. 301, p. 15-9.

[57] Ex. 301, p. 15-11.

[58] Ex. 103 and Ex. 102, p. GJR-17.

[59] Ex. 12, p. 21.

TURN proposed to link benefit costs to the payroll specifically as a proxy for full-time employee equivalents.[60] As discussed already, TURN argued these costs are directly tied to how many people are really on the payroll at SoCalGas and SDG&E. Their error, according to applicants was to tie the estimate to the dollar costs rather than body count. SoCalGas and SDG&E point out an employee's medical costs to the companies are set amounts driven by the number of dependents (which are probably predictable in the large pool of employees for both companies) and do not vary by wages.[61] We agree that TURN's linkage is too simple to be adequate.

Because of the limitations we find with respect to the likely true number of employees in the test year, we have adopted the minimum contribution pension balancing accounts. Because the costs in question here appear to be contract rates that are directly driven by the number of employees (and the related number of dependents included in their coverage) we find that the ratepayers will be better served by allowing actual costs subject to refund. We therefore adopt for revenue requirement purposes, subject to refund, the SoCalGas and SDG&E revised Test Year 2004 estimates of $39.075 and $26.2 million, respectively. We direct both utilities to establish a standard two-way balancing account to ensure recovery of actual medical expenses.

F. Dental and Vision Care Benefits

ORA proposed adjustments to the expense forecast to provide dental and vision care benefits that are a direct result of its proposed adjustments to the total

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[60] Ex. 501, p. 35.

[61] Sempra opening litigation brief, p. 251.

labor force for both SoCalGas and SDG&E. The adjustments were based on escalation rate differences and later contract rates not in the original testimony of SoCalGas.[62] We will adopt the later end-of-litigation estimates for SoCalGas and SDG&E, as reflective of the latest benefit provider contracts as shown in rebuttal Exhibits 102 and 103. We will forgo burdening the regulatory process with another balancing account even though the labor force (for whom dental and vision care are provided) might be smaller than forecast and adopted.

G. Other Benefits

There were several miscellaneous adjustments proposed by ORA for both SoCalGas and SDG&E in Ex. 301-E and Ex. 302-E, Tables 15.1 and 17.1, respectively:

SoCalGas **TABLE 2**

Life Insurance - 926.208	$ 294,000
Retirement Savings - 926.215	2,034,000
Educational Assistance – 926.218	31,000
Transportation - 926.239	91,000
Accidental Death and Dismemberment Insurance - 926.256	2,000
Employee Assistance - 926.241	60,000
Retirement Savings, Excess IRS Limit - 926.257	52,000
Total	**$2.564 million**

SDG&E **TABLE 3**

Life Insurance - 926.208	$ 113,000
Retirement Savings - 926.215	672,000

[62] Ex. 301, p. 15-14, and Ex. 303 provides no explanation for a 20.7% reduction to dental and 19.2% to vision care in Table 17.1.

Educational Assistance – 926.218	99,000
Transportation - 926.239	57,000
Accidental Death and Dismemberment Insurance - 926.256	9,000
Employee Assistance - 926.241	59,000
Retirement Savings, Excess IRS Limit - 926.257	32,000
Medical Supplies - 926.258	1,000
Total	**$1.042 million**

These totaled $2.254 million and $1.042 million, respectively. ORA offered no explanation why it recommended these disallowances beyond the barest declaratory statement without any tangible support. For example, the entire testimony on employee assistance, Account 926.241 for SoCalGas was: "There are no developments in the area of Employee Assistance requiring more training."[63] And there was nothing in Ex. 302 for SDG&E.

We are left unable to understand the factual basis and supporting analysis to justify a disallowance.

H. Supererogatory Benefits

The title itself reflects ORA's position that SoCalGas' request for $1.774 million for employee social, cultural, and charitable activities is unnecessary, or supererogatory. ORA proposed a complete disallowance. ORA cited, among other cases, D.96-01-011[64] and Edison rate case where, in a settlement, Edison conceded, "they might not provide a ratepayer benefit." The SoCalGas amounts are found in Ex. 301, Table 15-1 as follows:

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63 Ex. 301, p. 15-15.

64 D.99-01-011, 62 CPUC 2d 421 at 333.

TABLE 4

926.200 - Cultural Activities	$ 542,000
926.214 - Holiday Checks	291,000
926.219 - Cultural Activities	9,000
926.220 - Social Activities	527,000
926.223 - Social Activities	81,000
926.244 – Cultural Activities	326,000
Total	**$1,776,000**

SoCalGas argued that these programs are good for morale, and are not cash incentives. SoCalGas acknowledged that the commission has ejected such costs in the past, but suggested the Commission precedent "can and should change."[65]

For SDG&E, ORA proposed a parallel disallowance found in Ex. 302 at Table 17.1 as follows:

TABLE 5

926.200 - Cultural Activities	$365,000
926.214 - Holiday Checks	0
926.219 - Cultural Activities	71,000
926.220 - Social Activities	307,000
926.223 - Social Activities	31,000
926.244 – Wellness	199,000
Total	**$973,000**

For SoCalGas, the ORA caption on Account 926.244 is incorrect, that amount relates to the it is the Employee Wellness program as described for

65 Ex. 103, pp. GJR-28 – GRJ-29.

SDG&E. The companies argue this latter program's cost in particular is insignificant compared to avoided medical costs.

We are persuaded that such programs may well engender a benefit to employee morale. We will allow these costs in Test Year 2004.

XII. Workers' Compensation – Account 925

In Ex. 12[66] for SoCalGas (and Ex. 34 for SDG&E), the applicants forecast the test year expenses for worker' compensation costs that are necessary to treat and compensate employees injured while on the job. This is an integrated service for both utilities and the corporate center. The companies forecast the expected changes in costs, which included increases in compensation rates, medical costs increasing by 20% and an analysis of other "cost drivers."

TURN argued that SoCalGas' allowance for workers' compensation expense should be adjusted proportionally to reflect the difference between the applicant's requested payroll (labor expense) and ORA's forecast (or, presumably the level adopted in this decision). This would reduce the 2004 Test Year estimate of $23.362 million by $3.387 million (14.5%) to $19.974 million.[67] TURN argued that ORA should have included an adjustment as a result of its own proposed payroll adjustment. ORA made no recommendation.

SoCalGas argued that it was "self insured"[68] and so there are no payroll-based premiums. For 2004, SoCalGas proposed $23.362 million that included an

[66] Ex. 12., pp. 42-52 for SoCalGas.

[67] TURN opening litigation brief, p. 130, citing the Ex. 501 calculation that relied on an ORA adjustment of $56 million to payroll.

[68] Ex. 136, GJR-2.

increase of $8.680 million (59%) from the 2001 Base Year cost of $14.682 million. SoCalGas described its obligation to pay for medical treatment, legal expenses, and indemnity payments that include temporary or permanent disability payments, and vocational and rehabilitation payments. In addition, it must maintain a reserve account "to insure that Company (sic) has adequate funds to pay the required benefits for each claim." (Ex. 12, p. 43.) As claims are made, SoCalGas must set aside funds in the reserve account. Near-identical testimony was presented for SDG&E, where the Test Year 2004 estimate of $9.279 million included a $2.594 million (39%) increase over base Year 2001 costs of $6.685 million.[69] Because of the similar testimony we may apply the same analysis and ratemaking outcome to SDG&E. What is not clear from the testimony is whether this is a fully segregated account separate from other corporate funds or only an accounting provision.

We take note of the public debate and recent legislative action that may in the near future affect workers' compensation costs for SoCalGas and SDG&E. We have no record now on which we could make any forecast adjustments and we will not fall into the trap of going beyond the record. We cannot even comment on how or whether recent changes would affect a self-insured employer. But TURN has at least demonstrated that the costs for workers' compensation are difficult and complex to forecast for ratesetting purposes, especially when we have a contentious labor expense – number of employees – dispute throughout both applications. It is clear even on our record that the obligations for workers' compensation are complex, detailed, and largely

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[69] Ex. 12, pp. 42 – 52, and Ex. 34, pp. GRJ-41 – GRJ-51. The quoted text is Ex. 12, p. 42.

regulated beyond our jurisdiction. We must strike a fair balance between the ratepayers and the shareholders, so that workers are adequately protected.

We will include for ratesetting purposes the Test Year 2004 estimates of $23.362 million and $9.279 million for SoCalGas and SDG&E, respectively. We require, however, that both companies establish a memorandum account and track the differences between actual expenditures and the changes to their reserve accounts required to account for pending claims. In the next rate proceeding, SoCalGas and SDG&E are directed to reconcile their actual expenses and reserve account changes (including the subsequent attrition years), using this memorandum account and offset any excess against the next test year revenue requirement. The only reasonableness review issue should be the adequacy of the reserve so that SoCalGas and SDG&E do not unnecessarily fund the reserve accounts beyond their identified obligations. This is not a promise that if actual expenses and reserve requirements exceed the test year estimates, the shortfall would be recoverable; we set as a ratemaking cap the full requests by SoCalGas and SDG&E that already assume all positions budgeted in the applications.

XIII. Rate Base

With traditional cost of service ratemaking utility shareholders are expected to provide sufficient investment capital to finance the plant and facilities necessary to provide safe and reliable service to ratepayers. In exchange, shareholders are provided an opportunity to earn a reasonable rate of return on their equity investment and recover the interest costs of long-term debt. Absent the creation of any other sharing or reward devices, this return on equity is why investors own stock. The details become more complex; but the premise is constant: if the shareholders provide the financing necessary for the provision of service, they are entitled to the inclusion of a return on investment in retail rates. The Commission must decide what investments are reasonable and necessary for SoCalGas and SDG&E to provide safe and reliable service in the test year.

To derive Test Year 2004 estimates it is necessary to adjust from the recorded Base Year, 2001, for known or forecast events in 2002, 2003 and the test year itself, 2004. As they are discussed below, the issues are generally focused on Test Year 2004 expenditures, but the final Test Year 2004 rate base includes the past years' activities as a part of the new foundation for the test year rate base. Unless specifically otherwise adopted, the adopted Test Year 2004 estimates include the related requests or adjustments for these earlier years' additions. The accumulation of all depreciation over the life of the assets is from the total of all reasonable capital expenditures. Depreciation (discussed in more detail later) is the recovery of capital investment represented in rate base over the assets' useful lives.

The ratemaking risk to the ratepayers is that SoCalGas and SDG&E may not perform the work at the adopted levels, which would otherwise entitle the companies to the recovery of the depreciation and return built into retail rates as a result of adopting a test year forecast. As with all capital items, there is a normal forecast error – applicants may actually spend more or less than the adopted forecast. This decision endeavors to include in rates the effects of the most plausible actions in the test year and the Commission expects SoCalGas and SDG&E to perform in good faith the work necessary to provide safe and reliable service. The ratemaking risk to SoCalGas and SDG&E is that to meet this service obligation they must actually spend more than adopted forecast. The effects of these risks to both ratepayers and the utilities are prospectively corrected in subsequent rate adjustments where actual capitalized costs are accurately reflected.

XIV. Capitalization Policy

A basic accounting Tenet is that longer-lived and higher value equipment is accounted for by capitalizing the costs as a long-term asset and then recovering its cost over multiple years through depreciation, spreading the costs over time as an annual expense for the useful life of the equipment. A pipeline might have a 30-year life and clearly all ratepayers should pay for the construction of that asset over its long life. But many items that might provide service for several years are acquired at a low costs. Many hand tools last for years but no one would reasonable argue to allocate a $30 hammer over its 10 year, or longer, life. SoCalGas and SDG&E have an accounting policy that, at some threshold, it is simpler and easier to record as an expense in the year of acquisition the full cost of many minor times that will not be used up immediately.

Parties spend some time on this issue because SoCalGas and SDG&E propose a new policy: items over $5,000 each should be capitalized replacing the old thresholds of $500 for SoCalGas and $2,500 for SDG&E. The short-term effect is to increase expenses because a portion of Test Year 2004 costs would no longer be capitalized and deferred to subsequent years. TUEN objected to the proposed change in SoCalGas' capitalization threshold (from $500 to $5,000). TURN's prepared testimony described in general terms the adverse rate impacts that it believes would result were the utility's proposal to be adopted.[70] TURN argued in its brief that SoCalGas and SDG&E, and the Sempra Corporate Center could

[70] Ex. 501,pp. 9-10.

use the lowest rate of $500 (at SoCalGas) and achieve consistency rather than raise all three units' level to $5,000.[71] They complained that SoCalGas and SDG&E witnesses would not or could not quantify administrative savings. But accruing a return, capitalized costs can be inherently more expensive that expensing minor costs in a single year. ORA and UCAN did not brief this issue.

The parties opposed to the accounting change argue that SoCalGas and SDG&E did not show material savings in administrative costs and that the immediate revenue requirement impact would be adverse to current ratepayers. Before we can agree to treat as a current-year expense the cost of such items as personal computers, we must be persuaded not only that long-term savings will be significant, but that it is most appropriate to think of such purchase as stand-alone expenses, rather than thinking of them as part of a broader, more costly network. The current record does not satisfy these concerns, and we will not adopt the proposed change. Apparently, SoCalGas and SDG&E presumed that the commission would adopt its new capitalization proposal, and did not provide a clear record as to how to calculate revenues for capitalization under the existing method. We have been left with the need to use an inelegant proxy for these revenues, and expect constructive comments on ways to make these numbers more precise.

XV. SoCalGas Plant Additions

SoCalGas asked for an increase in rate base as a result of capital additions installed since the last test year as well as forecast to occur in the test year itself. It explained its request was influenced by such factors as the aging of pipeline

[71] TURN SoCasGas opening brief, pp. 143-145

already in service, retrofitting and inspecting transmission pipelines, new business requiring more capacity, and necessary relocation of facilities.[72] The testimony identified what were called "key factors" or "drivers" that supported the request. In addition, there were work papers and data responses to the parties' detailed inquiries that are not always included in the record as exhibits but served to inform the parties.

A. Gas Transmission

ORA proposed a Test Year 2004 estimate for weighted average plant in service of $6.890 billion for SoCalGas, which is $166.42 million less than the company's end-of-litigation position, $7.057 billion. We will consider in turn the differences proposed by ORA and others. Apart from those specific adjustments found to be a more likely estimate for Test Year 2004, we otherwise adopt the SoCalGas end-of-litigation position.

1. Gas Transmission Retrofit – Pipeline Integrity

ORA objected to one component of the $39,487,000 estimated capital cost for Transmission Pipeline replacements in Account 302. ORA proposed a lower

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[72] Ex. 6, p. 3, and pp. 37-65.

estimate to retrofit a pipeline segment in 2004. Included in this retrofit is the use of "pigs" that travel through and inspect the pipelines. First, ORA believed that a proposed retrofitting of 110 miles for $32,820,000 (approximately $300,000 per mile[73]) was overstated. SoCalGas used an estimated $1 million for each five miles plus a valve replacement at $90,000 each. ORA stated that it used recorded data for earlier retrofitting on SoCalGas *Line 3007*, derives an estimated cost of $218,000 per mile.[74]

SoCalGas disputed the ORA estimate as incomplete and inaccurate. It claimed ORA overstated the length of the test project (only 4.2 miles not five) and understated the costs ($1 million instead of $1,034,375), which raised the cost to $246,000 per mile. A valve is needed every five miles for $18,000 / mile ($90,000 / five miles). SoCalGas argued that ORA omitted the $30,000 cost of a verification dig every mile and $6,000 / mile for pig launcher / receiver facilities[75] that were already in-place for *Line 3007*. Thus SoCalGas had a final estimate of $300,000 per mile ($246,000 + $18,000 + $30,000 + $6,000).[76] ORA did not challenge this in its reply. TURN supported the ORA adjustment (but did not offer testimony itself). In its opening litigation brief, TURN argued the cross-examination of SoCalGas' witness by TURN supported the possibility of cheaper

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[73] Ex. 6, pp. 39.

[74] ORA opening litigation brief, p. 205.

[75] We will not dwell on this image; but a pig launcher / receiver is a mechanism to place the pig into the pipeline and to remove it later.

[76] Sempra opening litigation brief, p. 113.

non-pigging options.[77] We did not find this convincing. SoCalGas provided sufficient convincing evidence to support its estimates for the pipeline integrity project. We will therefore adopt the $32,820,000 estimate for Test Year 2004, to retrofit and pig approximately 110 miles of line.

TURN proposed a further adjustment in its brief where SoCalGas proposed $14.8 million in bulk projects, under $1 million.[78] The entire proposal is bootstrapped to one identified but delayed project, the *Mountainview* project. TURN and SoCalGas agree that the supporting work papers relied on by TURN are not in the record, and thus we decline to consider this recommendation.

2. Laboratory Equipment – Budget Category 718

SoCalGas proposed to purchase (or has already purchased) an FTIR analyzer for $150,000 in 2003 and a new electron microscope for $250,000 in 2004.[79] ORA argued that historical two-year average purchases were much lower, only $267,303.[80] This is an example of where a historical trend, is not a reasonable alternative. We will adopt SoCalGas'estimate.

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[77] TURN opening litigation brief, pp. 43-47.

[78] TURN opening litigation brief.

[79] SoCalGas justified the need for this equipment in its testimony without relying on a trend.

[80] ORA opening litigation brief, p. 206.

B. Gas Engineering

1. Capital – Software Development Budget Category 723

ORA agreed with the SoCalGas forecast of $750,000 but points out that rate base should be weighted based upon when an item enters service. The Test Year spreadsheet calculations cannot be adjusted to reflect the likely third or fourth quarter in-service date, so ORA pragmatically forces an adjustment to the amount, using $375,000 as the addition, to replicate the effect of the weighting process. In subsequent years, any remaining undepreciated or unamortized balance should be reflected in rate base for the full year. We adopt this reasonable fix around the spreadsheet limitation. Again, we expect SoCalGas to actually spend the money on this program.

C. Gas Distribution Operations – Capital Expenditures

1. Natural Gas Vehicle Project (Category 734)

TURN opposed the 2004 $3.824 million rate base addition for natural gas vehicle refueling stations. TURN argued that because SoCalGas did not include revenues from public access to the stations in the miscellaneous revenue forecast, the investments would not be cost effective and the addition should be denied.[81] SoCalGas argued that it only included mandatory program costs (relative to its own fleet) and there is no discretion as to whether the stations are otherwise cost effective. SoCalGas further asserted that revenues from outside sales are already captured, and cited the Natural Gas Vehicle Account (NGVA) in Section V, Sheet 11, of the Preliminary Statement in its tariffs as approved by the

[81] TURN opening litigation brief, p. 79.

Commission.[82] We will not make any further adjustment. We adopt $3.824 million.

2. New Business & Pressure Betterment

The New Business and Pressure Betterment plant expenditures are costs of adding new residential, commercial and industrial meters to the pipeline system as well as reinforcement of the existing distribution network by extending or adding new pipelines or by "uprating" pipelines to a higher maximum allowable operating pressure. By using an historical trend of costs, ORA proposed an $8.7 million lower estimate,[83] which SoCalGas opposed. The two agreed on the customer growth rate, but ORA wanted to trend costs whereas SoCalGas argues it built a detailed cost estimate relying on hours of crew time, equipment, etc., to reach its estimate of $41.168 million.[84] We will adopt the company estimate because it is based on a detailed cost.

3. Routine Main Replacement

SoCalGas seeks funding to replace 4,400 miles of pipelines installed prior to 1947. This pre-1947 pipeline is described as cathodically unprotected, i.e., it is subject to corrosion. SoCalGas and SDG&E have portrayed as a theme in these applications the issue of "aging infrastructure" and the need for significant funding to refurbish the physical utility systems. The intervenors have been skeptical, alluding to the companies' past failures in maintenance rather than aging infrastructure. This decision looks to whether SoCalGas (and elsewhere

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[82] Sempra opening litigation brief, p. 151.

[83] Ex. 301, pp. 21-26.

[84] Ex. 3E, p. FA-19 forward.

SDG&E) adequately justifies specific requests for maintenance and replacement, for both capital investments in rate base and in the appropriate expense categories.

SoCalGas cites three reasons for replacing mains: discretionary replacement when the main is perceived to be a safety hazard; maintenance costs in excess of the cost of replacement; and replacement done as part of a pipeline inventory management program.[85] SoCalGas' expenditures over the three years 2000 – 2002 increased dramatically over 1999 levels. In its rebuttal showing, SoCalGas presents details on cost estimates; it provided detailed cost estimates supporting a rate $278,900 per mile compared to ORA's rate of $205,997. It also included information on the rates of leakage for pre and post-1947 pipelines.[86]

ORA reviewed the request and proposed a seven-year average, citing the recent large increases in forecast expenditures for 2003 and 2004. It pointed out the request is twice the average for this period. ORA also noted that the company does not have, or could not provide, data on the trend for replacement of pipelines by vintage. So it depends on whether we believe the assertion that the pipes are leaking more, which would support accelerated replacement, or whether we believe the long run trend is more reasonable. The difference is

[85] Sempra opening brief, p. 25.

[86] One of the striking features of the proceeding is the enormous amount of rebuttal testimony. In a case where ORA could not review a NOI for deficiencies, SoCalGas (and SDG&E) should have erred on the side of much too much information in the direct showing. Instead, Witness Ayala's Exhibit 3, prepared testimony has 94 pages and his rebuttal, Exhibit 66, has 172 pages. This was not unique to this witness or this subject area.

$2.888 million. We believe that SoCalGas is correct, old pipelines will leak at an increasing rate as they continue to age.

We will adopt the SoCalGas estimate, $26.818 million.

4. Routine Service Replacement

SoCalGas asserted that service connections to customers are replaced due to leaks because replacement is cheaper in this instance than repair. Four causes were described for service replacements, another area with sharp increases in test year 2004: replacing bare steel pipes; relocating curb meter sets in curb meter boxes in coastal areas that suffer from extreme corrosion; increased costs in permitting and paving and waste water management; and abandonment of services.

As with main replacement, ORA was concerned at the significant difference from the historical trend. Again, SoCalGas was able to be very specific – replacing a forecast of 58.7 miles – but was unable[87] to give ORA historical mileages or costs because it lacked detailed operating records. SoCalGas has made a more convincing and detailed showing to justify the forecast expenditures that are not refuted by a trend analysis. We will adopt SoCalGas' litigation request, and to ensure the money is used appropriately, we will require SoCalGas to keep accurate records, this time, to demonstrate that it in fact replaces some significant mileage of service connections in exchange for the $11.008 million included in rate base for Test Year 2004.

[87] ORA opening litigation brief, p. 212.

5. Freeway/Franchise Work

SoCalGas must move its facilities at the request of the California Department of Transportation (CalTrans) or local agencies (Franchises) when either of these two is making their own infrastructure changes. SoCalGas had stated there were four factors affecting its forecast: the known improvements to freeway and railroad systems; population increases and development in urban areas requiring new or up-graded infrastructure; funding available to governmental agencies for road widening and infrastructure improvements; and finally, increased permitting and paving costs due to more stringent requirements from city, county and state agencies.[88] These have the appearance of being reasonable categories or criteria for forecasting test year expenses. ORA asked SoCalGas to identify projects or estimates attributed to these four factors that were included in its forecast. SoCalGas only provided data for known projects that total $6.767 million in 2004 compared to the request for $12.803 million.[89] We note the Proposed Settlement uses $7.0 million, a virtual rounding to ORA's proposal. SoCalGas was capable, and had the opportunity, of including any increased costs – its fourth factor – into the 2004 project estimates where we assume it had no incentive to "low-ball" those estimates. In this instance, ORA asked the right questions and SoCalGas lacked the right answers.

TURN provided the most compelling cross-examination on this issue, focusing on the likelihood of CalTrans experiencing significant budget

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[88] ORA opening litigation brief, pp. 212-213, and Ex. 301, pp. 21-15 through 21-17.

[89] Comparison Exhibit, p. 112.

reductions that affect SoCalGas related projects as readily as projects anywhere else. TURN showed that SoCalGas' witness maintained an unreasonable "optimism" about the 2004 funding for projects.[90] TURN recommended an estimate of $5,884 million, based on an average of 1996-2002 data.

We will adopt the ORA estimate of $6.767 million. Although TURN's trend is lower, ORA's estimate is based on the likely identifiable projects for the test year.

6. Other Capital Replacements

ORA took exception to one particular activity, the rate of replacement for regulator stations. In Ex. 301,[91] ORA argued that SoCalGas had not justified a replacement program predicated on the age, over 35 years old, of replacing the 530 facilities (out of 2,000) exceeding this target age. ORA suggested that with maintenance they need not necessarily be replaced. ORA pointed out the five-year expenditure trend is not consistent with the request for $8.276 million in 2004. In its brief, ORA argued the rate of replacement based on age, using SoCalGas data would suggest replacing 28 regulator stations annually and that the SoCalGas request for 57 replacements in 2004 is inconsistent.[92]

We will adopt the ORA estimate for other capital replacements of $5.2 million for 2004. ORA has reasonably considered the details in SoCalGas work papers and looked to the trends as well, so it is not simply a lower number, but a reasonable estimate derived from critical analysis of the data.

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[90] TURN opening litigation brief, pp. 18-24.

[91] Ex. 301 pp. 21-18 and 21-19.

[92] ORA opening litigation brief, p. 214.

7. Cathodic Protection

Cathodic protection is a process that impedes the corrosion of steel pipelines. SoCalGas sought a test year estimate of $8.586 million, for activities that include the installation on new steel pipelines, the completion of the installation of protection on existing distribution mains, and the replacement of some cathodic protection anode beds. SoCalGas argued that some of the anode beds have exceeded their functional life and need replacement,[93] and this portion amounts to $2 million. ORA proposed the use of the 2001 actual expense as the forecast for 2003, which in turn leads to the 2004 estimate. SoCalGas argued this ignores other increases in costs since 2001.[94] SoCalGas also claimed that it replaced large areas that were easier to retrofit in 2001 and 2002 so the unit cost is lower in those years.

We adopt the SoCalGas request of $8.586 million.

8. Special Main Replacements

SoCalGas proposed an extensive replacement or abandonment of mainly older, pre-1931 installations based on an engineering survey for those facilities that are more susceptible to earthquake damage and are therefore more hazardous. One cause cited for the failure of older pipeline is that welding techniques were inferior and industry standard welder qualifications only were introduced around 1930.[95] Again, we learn more in rebuttal Exhibit 66 than we do from the original showing in Exhibit 3. ORA relied on a three-year average

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[93] Ex. 3, p. FA-77.

[94] Sempra opening litigation brief, p. 33.

[95] Ex. 3, p. FA-79 and Ex. 66, p. FA-52.

after determining the expenditures are outside of the seven-year trend; ORA also believed SoCalGas has not shown that the rate of deterioration has changed to warrant an accelerated rate of replacement.[96] SoCalGas specified eight projects that it completed in 2003 and forecast to complete in 2004, and even though this estimate exceeds ORA's trend we find it reasonable to include these specific estimates because the detailed information where SoCalGas has or will perform specific projects outweighs the use of a trend. We adopt SoCalGas' test year estimate of $10.371 million.

9. Measurement Equipment

Measurement equipment includes the costs of meters, regulators, and instruments to record either volume or pressure. These last items are Gas Energy Measurement Systems (GEMS) used for non-core (essentially large) customers.

Meters are the principal interface between the utility and the customer; it is vital to have accurate meters so that customers are fairly charged for their true consumption. Customers must also be safe. SoCalGas proposed to purchase new meters during the test year to meet the demand of new customers and to replace old meters that are unreliable or unsafe. A regulator is a necessary adjunct to the meter and SoCalGas asserts it installs a new one with a new meter and with meter "change-outs" (replacements). There are both "Little" and "Big" GEMS and non-core customers pay the original cost for the installation as a part of a Contribution In Aid of Construction (Contribution). This contributed plant is in rate base but SoCalGas does not earn a return on the cumulative balance. As contributed plant requires replacement, the company capitalizes the costs as

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[96] Ex. 301, pp. 21-23 through 21-25.

they do for conventional plant additions.[97] Replacements financed by SoCalGas earn a return while in ratebase.

ORA used a seven-year average, which SoCalGas believes resulted in elimination of a portion of the meter replacement program costs and the related regulators, and GEM replacements. Using the agreed upon rate of new business (and therefore meter) growth SoCalGas says ORA would under fund new meters and regulators by 17,000 units. We adopt the SoCalGas estimate for new meter capital costs because it correctly provides for the expected new meters and regulators in 2004.

ORA disputed the replacement program for Rockwell and Tin meters,[98] which would amount to SoCalGas replacing 392,000 meters[99] more than the 2001 actual replacements and the GEM replacements. ORA disputed the need based upon the percentage of leaky meters and used a rate of 17.5% meters as leaky, compared a system average of 5% for other types of meters, and proposed a five-year allowance of 87,500 meters.[100] It is necessary to know which specific meters are leaking if the scope of the replacement program is based upon the rate of leaky meters in the total population. SoCalGas satisfied us that the rate of leakage with these meters is unacceptable and could be hazardous. ORA cannot predict which meters will leak. We agree with SoCalGas that the Rockwell and

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[97] See Ex. 66, pp. FA 56 – FA 62, and Sempra opening litigation brief, pp. 36-38. The brief uses 17,000 meters on p. 36 and 20,000 on p. 37.

[98] Rockwell was a manufacturer of some meters and other meters are made of the metal alloy tin.

[99] ORA opening litigation brief, p. 218.

[100] ORA opening litigation brief, p. 219.

Tin meters should be promptly and systematically replaced and we adopt the SoCalGas capital cost estimates for the replacement program.

SoCalGas argued that when it is necessary to replace contributed plant that the cost should be capitalized and included in rate base. ORA argued[101] that only non-core customers should bear the costs of GEM replacements. The ORA recommendation to disallow recovery of the costs in base margin rates is technically incorrect; if the costs are to be borne solely by non-core customers, one option is that SoCalGas should still capitalize the costs and in the appropriate rate design process we could set rates so that only non-core customers paid the related rate impacts. We decline to do this in this proceeding.

Any specific cost allocation to gas customer classes belongs in the Biennial Cost Allocation Proceeding (BCAP) and we decline to preclude rate recovery. ORA argued that the tariffs[102] require non-core customers to have the GEM type of equipment installed at their own cost. This is a contribution as discussed above. ORA would have these customers contribute the replacement GEMs as well, paying for plant beyond the original installation. A contribution method would again not be a disallowance; it would be a specific ratemaking tariff recommendation. This would ensure that specific customers bore only their own costs, if any. By treating them as further contributions ORA would exclude these costs from this proceeding. SoCalGas argued that the tariffs only consider the conditions to obtain initial service and do not address replacements. We do not

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[101] Ex. 301, pp. 21-29 to 21-32.

[102] ORA cites Gas Rules 20 and 21 and Tariff Schedule GT-F (which are approved by the Commission) at p. 219 of the opening litigation brief.

adopt ORA's contribution interpretation and we have not required customers to directly pay for ongoing repairs and replacements of plant originally contributed under the existing tariff rules[103] for SoCalGas. We adopt the SoCalGas capital cost estimate for the test year because it reflects the best estimate of its cost to provide service in the test year.

We adopt the total SoCalGas estimate for capital expenses of all measurement equipment, $28.147 million for Test Year 2004.[104]

10. Support Labor

Support Labor includes labor and non-labor costs for the Regional Planning Office for construction design, field management and other related costs. ORA's adjustments were predicated on its own adjustments to Routine Main and Special Main Replacements, above and New Business. None of those adjustments were adopted so we adopt here the SoCalGas Test Year 2004 forecast of $38.8 million.

11. Software Application – Gas Maintenance & Inspection

SoCalGas requested $5.522 million for test year 2004 to replace Distribution Operations Maintenance and Inspection systems with new technology to automate field order and data capture processes. The capital

[103] See Rule 20, Gas Main Extensions and Rule 21, Gas Service Extensions. These rules, as adopted by the Commission, delineate the responsibilities of the customers and the utility, including the obligation of the customer to pay for and contribute the ownership of certain plant to the utility at the time service is established. The rules do not make the customer directly responsible for ongoing maintenance or replacement.

[104] SoCalGas Joint Comparison Exhibit, p. 116.

expenditures were justified as necessary for compliance with Federal Department of Transportation as well as Commission regulations. ORA's test year recommendation was adjusted to be consistent with its proposed reductions to Routine Main and Service work and the level of new business activities.[105] Because none of ORA's related adjustments are adopted, there is no adjustment to this expenditure. Because we agree with SoCalGas that the expenditures are necessary to comply with both the state and federal the regulations, we will adopt $5.522 million as the test year capital expenditure for gas maintenance and inspection software.

D. Information Technology Capital Expenditures

SoCalGas requested $52 million in information technology capital expenditures in 2004, and included previous expenditures of $37.6 million in 2002 and $35.8 million in 2003 to derive the total rate base additions for Test Year 2004.[106] The applicant used five witnesses and described 35 capital expenditure projects in detail, characterizing them as "backbone" or "infrastructure" projects that require continued maintenance, repair and up-grade. ORA and others, after they made their detailed investigations objected to several of the SoCalGas capital expenditures forecast for 2004. Except as discussed below, we find that SoCalGas justified the additions as necessary to provide adequate and reliable service and the cost forecasts were reasonable.

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[105] SoCalGas Comparison Exhibit 149, p. 118.

[106] Ex. 9, pp. JCB-40, ff. In addition, ORA and others reviewed detailed work papers and data request responses that were not identified as exhibits.

1. Windows 2000

ORA proposed to disallow $1.1 million in 2004 for the conclusion of a Windows 2000 Active Directory Services Project, because it was to be completed within 2003. SoCalGas argued that it was true the project was completed in 2003 but not true that the $1.1 million would not be spent. SoCalGas did not enlighten us in its Briefs or in Ex. 9, that includes the expenditure for 2004 why and how a completed project still has an additional $1.1 million of costs. We will adopt the ORA adjustment to Test Year 2004 resulting in an allowance of $25.1 million instead of SoCalGas' $26.2 million.

E. Information Technology - Desktop and Laptop Computers

Both SoCalGas and SDG&E proposed a program to replace desktop and laptop computer equipment on a three-year systematic basis. In the testimony, they relied on external studies to bolster their estimates and they included in the estimates an average configuration (some equipment purchased would be either more basic or advanced depending upon user needs) and new operating systems (Windows).

TURN vigorosuly opposed the computer related forecasts in its Opening Litigation Brief for SDG&E[107] and in particular the replacement cycle and cost estimates for personal computer replacements. In addition to the first two issues, there is a related question on the accounting treatment, whether to capitalize and then depreciate the costs, or to book the costs directly to expense each year. The computer issue is common to both companies and we will treat it here as a joint issue. TURN argued:

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[107] TURN filed a separate opening litigation brief on the SDG&E application.

> "1. The Commission should first address the computer refresh cycle, rejecting the proposed 3-year cycle in favor of the 5-year cycle proposed by TURN and UCAN, and consistent with the utility's depreciation showing. In the alternative, the refresh cycle should be no less than 4 years. Based on the adopted refresh cycle, the Commission should order SDG&E to adjust its 2004 computer replacement forecast accordingly. This will produce a reasonable forecast for the number of desktop and laptop computers that will need to be replaced in 2004.
>
> "2. The Commission should next determine the reasonable cost per desktop and laptop computer. Multiplying those figures by the forecast for the number of computers described above will produce a reasonable computer replacement budget for 2004.
>
> "3. Finally, the Commission must apply here the outcome on the 'capitalization threshold' issue. If the Commission adopts TURN's proposal to reduce the SDG&E threshold to the current SoCalGas threshold of $500 or to the current Sempra corporate threshold of $1,000, all of the computer purchases would be capitalized rather than expensed. Appropriate modifications to the proposed SDG&E revenue requirement would need to be made to reflect this outcome." (TURN opening litigation brief – SDG&E, mimeo., p. 29.)

1. Replacement Cycle

The applicants' witness and TURN used independent references, *Gartner Group* reports,[108] to reach difference conclusions on both replacement cycle and reasonable computer configurations. Applicants took the most expensive interpretation to replace more frequently at the short-end of the recommended range (three years) while TURN stretched to the outer range (five years) and they

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[108] See Ex. 536.

again went high-low on configuration. Applicants also argued that software support for Windows operating systems, purchased with computers, have limited lives.[109] TURN argued that the Microsoft software support is maintained for systems that are used by SoCalGas and SDG&E for the five-year cycle it advocated.[110] While we agree with TURN that a longer cycle is in keeping with the recommendations of the industry expert reports in the record, TURN's five-year cycle is as extreme as the three-year cycle proposal; we want SoCalGas and SDG&E to stay sufficiently current in technology so that they are efficient and cost effective. We will adopt a four-year cycle because we believe that the three or five-year options are too aggressive (in opposite directions).

2. Cost

TURN's discussion delved into the detailed specifications of particular desktop and laptop computer models as used by SoCalGas and SDG&E for their 2004 estimates and more recent, up-dated models that are faster, better and cheaper – a consistent trend in personal computers. SDG&E's 2003 *Thinkpad T-23* for $3,628 has become TURN's 2004 *Thinkpad T-40* for $2,535.[111] These were used as illustrations of the machines available. SoCalGas and SDG&E argued that some computers would be more complex and expensive due to user needs and others would be less powerful but still adequate.

Computer costs will likely continue to decrease as shown by TURN and for the same price, a purchaser is likely to find a better machine is available over

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[109] Ex. 32, p. 60.

[110] Page 24, TURN opening brief on SDG&E.

[111] TURN brief, Table 8-C, p. 25.

time. The estimate used by SoCalGas and SDG&E is old and we will therefore use the more recent estimates of $2,535 for a laptop and $1,166 for a desktop computer.[112] TURN would have us consider whether the companies should buy a new mouse and keyboard too. We will not specify that level of detail. Applicants' witness stressed that individual machines would vary in components, based on user need, and the estimate was an average machine. We expect applicants to buy the necessary and reasonable equipment with flexibility on individual machines for more memory or other special features necessary for the user to do their job efficiently. We expect SoCalGas and SDG&E to take advantage of acquiring computers that include any technical improvements for the same average budget price over time and not to spend less money for the computers as the prices fall to buy less than current machines. The prices quoted by TURN should continue to provide adequate computer resources to SoCalGas and SDG&E for the next several years.

3. Accounting

As discussed elsewhere we reject the accounting change to allow SoCalGas and SDG&E to raise their capitalization threshold to $5,000. Even where computers may now be expensed, we expect SoCalGas and SDG&E to maintain detailed records of their personal computers.[113] We expect them to demonstrate in the next rate proceedings that; (1) they purchased enough machines to comply

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[112] TURN SDG&E opening brief, Table 8-B, p. 22.

[113] Expensed items, under $5,000, may not have as detailed an inventory process as items that are capitalized and depreciated. We expect SoCalGas and SDG&E to closely monitor their computers and have adequate records even though the equipment may be charged as an expense when purchased.

with a four-year replacement cycle and (2) they spent the money provided in rates to buy the best machines available for the price. SoCalGas and SDG&E should not "pocket the difference" by buying fewer or cheaper machines. We recognize that not all machines need have the same level of performance, but we expect the total mix to be adequate and as functional as possible within the available funding limits.

4. Gas Industry Restructuring Implementation

In I.99-07-003, the Commission investigated options for changes to the regulatory and market structure of the natural gas industry. In April 2000, parties signed a Comprehensive Settlement Agreement (CSA) resolving many of the issues raised in the I.99-07-003. In December 2001, in D.01-12-018, the Commission adopted the CSA with some modifications. SoCalGas sought to recover in rate base the capitalized costs incurred to develop necessary software to implement the proposed restructuring, arguing that some of the work was performed prior to D.01-12-018 in anticipation of approval of the CSA; other aspects of the work were performed immediately following issuance of D.01-12-018, because SoCalGas believed it could rely on Finding of Fact 72[114] and proceeded with the project until around August 2002.[115]

SoCalGas filed several implementation advice letters in 2002, which were denied without prejudice in February 2003 by Resolution G-3334 and SoCalGas was told to file an application to implement D.01-12-018. In June 2003, SoCalGas

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[114] "The reforms herein have been delayed and need to be implemented quickly." (Mimeo., p. 139, D.01-12-018.)

[115] Sempra opening litigation brief, p. 171 and referring to Ex. 10, pp. SE-13 and SE-14.

filed A.03-06-040 that offered two options: (1) a “Compliance Case” which implemented the CSA as adopted in D.01-12-018; and (2) a “Preferred Case” which would have made substantial changes to D.01-12-018. On September 29, 2003, the Assigned Commissioner’s Scoping Memo determined that “The issues to be considered in this proceeding are limited to the adoption of tariffs, as proposed in the compliance case of SoCalGas, for implementing D.01-12-018.”[116] The Commission issued D.04-04-015 on April 1, 2004, approving the implementation of the CSA without further modifications to it or to D.01-12-018 and it closed A.03-04-060. That decision did not address the recovery of software development costs SoCalGas seeks to recover in this proceeding. SoCalGas cites D.01-12-018 as directing it to seek recovery in its next performance based ratemaking proceeding or rate case.[117]

ORA and the SCGC opposed recovery of the implementation costs in this proceeding, and to the extent that they argued to address recovery in A.03-04-060 we reject that as moot.

SCGC argued[118] that a portion of SoCalGas’ request is for work related to an interim settlement that was not adopted by the Commission. In rebuttal SoCalGas argued that it redeployed (i.e., reused or reallocated for recovery elsewhere) some software development tools and some computer hardware

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[116] Mimeo., p. 4.

[117] Sempra opening litigation brief, p. 172.

[118] Ex. 750, pp. 1-7.

totaling $588,000. Additionally, $492,000 was written-off as a loss in June 2002[119] for activities solely attributed to the interim settlement. SCGC also argued that any allowed rate base addition should be weighted for a later implementation[120] date of July 2004 instead of January 2004. Finally SCGC challenged the accuracy and completeness of SoCalGas' explanations of implementation costs. SCGC asks without providing a detailed explanation that we exclude "at least $0.9 million" for interim settlement related costs not transferable to the CSA implementation. This is too vague for us to deny cost recovery; we will rely on SoCalGas' accounting internal controls to prevent any "double payment"[121] of capitalized costs to multiple projects. We discuss elsewhere ORA's audit report that did not assert generic issues of duplication or overall failures of internal controls that could lead to double recovery.

ORA did not dispute including these costs in rate base.[122] In the Comparison Exhibit, SoCalGas and ORA note that another portion of the project was omitted from ORA's spreadsheet calculations of the revenue requirement. In fact the parties agreed on the rate base components, and this decision reflects the correct calculation.

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[119] Ex. 71, p. SEE-4.

[120] Rate base is calculated so that it reflects the average investment for the test year, so for new additions the start of service date would be used to reflect the portion of the year the component was in service. A July service date would be weighted at 50% of the investment cost in 2004 and 100% in subsequent years. There is a similar effect for depreciation.

[121] Ex. 750, pp. 6-7.

[122] SoCalGas Comparison Exhibit, Ex. 149, p. 124.

We agree with SCGC that implementation in July is more probable than January 2004 and we adopt the Test Year 2004 expenditure estimate of $3.2 million[123] with the rate base calculation to be adjusted for a weighting for an in-service date on July 1, 2004.

F. Customer Service

1. Dispatch Phase I and II

This is another item where the Comparison exhibit shows differences only in the spreadsheet calculations of the revenue requirement between SoCalGas and SDG&E and ORA. In fact, the parties agreed[124] on the rate base components, and this decision reflects the correct calculation.

XVI. SDG&E Capital Additions

SDG&E asked for an increase in rate base as a result of capital additions installed[125] since the last test year, as well as forecast to occur in the test year itself. It explained[126] that its request was influenced by such factors as safety and reliability, and included piping infrastructure, tele-metering equipment pressure monitoring and other projects.

Apart from the specific adjustments as discussed below, we adopt the SDG&E end-of-litigation position.

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[123] Ex. 149, p. 124.

[124] SoCalGas Comparison Exhibit, Ex. 149, p. 123.

[125] Ex. 28, 9. RDP-84, Table RDP-CAP-1.

[126] Ex. 28, pp. RDP-86 ff.

A. Gas Distribution

The range of estimates is as follows:

TABLE 6

Capital Projects – Gas Distribution	**2003** Millions	**2004** Millions
SDG&E Litigation Request[127]	$36.399	$33.344
ORA Adjustments		
Geographic Information System	5.500	1.710
Maintenance & Inspection	0.914	1.836
Budget Reduction Factor	2.400	2.384
ORA Litigation Recommendation	$27.585	$27.414

1. Geographic Information System and Maintenance & Inspections System

In SDG&E's initial direct testimony, the applicant projected capital expenditures of $7.2 million ($5.5 million in 2003 and $1.71 million in 2004) for a Geographic Information System (No. 00867) that would provide an automated system of mapping etc., that would improve the companies' ability to plan and manage the system, especially for maintenance and service restorations.[128] ORA proposed to disallow these costs because the system has been delayed until 2008.[129] In a response to an ORA data request, SDG&E acknowledged and disclosed this delay, and also a delay for a Measurement & Inspection System project (No. 02867).[130] This project was originally forecast at $2.74 million ($0.9

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[127] Ex. 302, p. 22-1.

[128] Ex. 28, p. RDP-107.

[129] Ex. 302, p. 22-2, and Ex. 98, p. RPD-3.

[130] ORA Data Request SDG&E - 42, Response to Question 5, attached to SDG&E Ex. 98.

million in 2003 and $1.836 million in 2004). In its response to ORA, SDG&E budgeted no costs for these projects to be in the test year capital expenditures but it did show $2.4 million dollars in 2004 capital expenditures for Pipeline Integrity Management.

In rebuttal testimony, SDG&E proposed that the Pipeline Integrity Management project should at least be substituted if ORA has an appropriate proposal to eliminate projects that have changed since the application was filed. SDG&E expects to spend $2.4 million in 2004. SDG&E argued that "a snap shot in time approach" is appropriate and that "the merits of the projects submitted at the time of the filing is what ought to be debated."[131] In essence, they argue that over time there is always better information.

In this instance, SDG&E was in fact correcting its testimony with respect to three projects during the discovery phase of the proceeding. This decision repeatedly has found that the forecast methodology has to consider the likely changes from historical trends – i.e., a trend is not acceptable if it ignores identifiable changes in scope and scale. In this situation, we believe that it is a reasonable expectation to acknowledge during discovery known changes[132] to the estimates in the application – in both directions, and then it is appropriate to increase or decrease the test year estimate. We will include the $1.71 million for 2004 capital expenditures that ORA proposed to disallow.

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[131] Ex. 98, p. RPD-3.

[132] This is distinguishable from the discussion later in this decision on "updating" for SONGS security enhancements, which were not requested at all in the original application and SDG&E was therefore not correcting its early estimates.

2. Budget Reduction Factor

ORA proposed an overall blanket adjustment to gas distribution capital expenditures based on a six-year average (1997-2002) of the difference between SDG&E's budget and actual costs. The range was as high as 11.6% and as low as 0%. ORA eliminated the two extremes and derived 8%.[133] SDG&E argued the method is overly simplistic and its use would leave the company without sufficient funds to meet the various capital additions required to serve customers safely and reliably. It argued that SDG&E cannot always control events so a budget-to-actual comparison is necessarily reliable. This would be a stronger argument if the variance were not always a high-budget and lower-actual outcome.[134] Nevertheless, ORA did not identify <u>why</u> SDG&E's estimates are high in the past, so we cannot address a specific problem; ORA assumed a continuum of error. We will not adopt a blanket adjustment in this situation.

TABLE 7

Capital Projects – Gas Distribution	**2003** Millions	**2004** Millions
SDG&E Litigation Request[135]	$36.399	$33.344
Test Year Adjustments		
Geographic Information System	5.500	1.710
Maintenance & Inspection	0.914	1.836
Pipeline Integrity Management		+2.400
Adopted Capital Expenditures - Gas	$29.985	$32.198

133 Ex. 302, p. 22-3.

134 Ex. 98, pp. RPD-4 through RPD-7.

135 Ex. 302, p. 22-1.

3. Voice System Replacement Project

ORA proposed to disallow 10% of the 2004 forecast capital expenditure for this project based upon a conclusion that 10% of the system would not be in service by the end of 2004. ORA made the assertion that including the full estimate would over-compensate SDG&E for ORA's presumed five-year life of the rate case cycle. If we accurately reflected a forecast for rate base for every year between rate cases, which we do not, then only one-year's adjustment might be reasonable. The usual method of post-test year ratemaking is an index-type of adjustment; the specifics for SDG&E will be decided in Phase 2. Elsewhere, for SoCalGas' Software Development Budget Category 723, we adopted for ratemaking purposes ORA's adjustment to weight the addition to rate base to reflect the in service date. This adjustment is inconsistent with ORA's other recommendations, and given the degree of uncertainty inherent in estimates, a 10% adjustment is unreliably precise. We take SDG&E at its word that the system will be completed and in use in Test Year 2004 complete and therefore we adopt the SDG&E estimates, including the full $1.472 million for 2004.

4. Otay Mesa Betterment Project

Pressure betterment project 2466 would modify SDG&E's gas supply system to allow multi-directional flow through the Otay Mesa Metering Station (Otay Mesa);[136] that means gas could alternatively flow northward from the Mexico and U.S. border into the SDG&E system interconnecting with TGN.[137]

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[136] This gas supply system should be distinguished from the Otay Mesa generation project, which this Commission recently addressed in D.04-06-011, in R.01-10-024. See decision mimeo., p. 53, ff.

[137] Ex. 29, p. MDM-20

SDG&E proposed to add $11.531 million to rate base ($3.763 million in 2003 capital expenditures and $ 7.768 million in 2004[138]). ORA did not take issue with the concept of the project, but it did object that until SDG&E has a contract with a gas supplier and approvals from both the Federal Energy Regulatory Commission and the U.S. Department of Energy, the project should not be included in rate base.[139]

SDG&E responded in its rebuttal testimony, Ex. 93, that the project was delayed, and the costs shifted between 2003 and 2004 still are the same total, and that the rate base addition should be weighted to reflect a July 1 in-service date in 2004. SDG&E did not clarify in Ex. 29, 53, or 93 that TGN is *Transportadora de Gas Natural*, which is an affiliated company, owned by SDG&E's parent Sempra Energy.[140] TGN is the interconnecting company with SDG&E on the Mexico-U.S. border.

In Ex. 55, supplemental testimony served on June 16, 2003, in response to the Scoping Memo, SDG&E explained the role of the Otay Mesa project as follows:

> "Although SDG&E can meet its long-term demand growth with the resource plan presented (in Ex. 55), there <u>may</u> be a need for additional infrastructure to accept new supply into the SDG&E system. In the <u>long term</u>, new gas resources <u>may become</u>

[138] Ex. 93, p. MDM-3.

[139] Ex. 302, p. 23-4.

[140] See: Section A: Organizational Structure, Chart B-2, *2002 Annual Affiliate Transaction Report, SDG&E*, transmittal dated April 29, 2003 shows that Sempra owns 67% of *Transportadora de Gas Natural de Baja California*. This report is filed annual with the Energy Division in compliance with D.93-02-019.

> available from an LNG plant sited in Baja, California, Mexico. SDG&E could use the reliability receipt point at Otay Mesa discussed in (Ex. 29) to take new supplies into the SDG&E system. In the event that this potential supply source develops, SDG&E will need to modify and expand its gas transmission system…" by a forecast of a further $232 million.[141] (Emphasis added.)

This description is not sufficient to convince us that the current proposal is in fact used and useful now for ratepayer benefit in the test year, and therefore we will not include Project 2466 the Otay Messa Betterment in Test Year 2004 rate base.

Additionally, ORA proposed an Over Budgeting Factor adjustment that appears to be derived in the same fashion as the Budget Reduction Factor for gas distribution projects. ORA did a mathematical exercise to average the 1997 – 2002 six-year variance in budget to actual after dropping the highest and lowest. The range is 39.6% to 1.6% and even then the range is from 18.9% to 4.8% for the remaining four data points for an average of 9.7%.[142] Once again, ORA had not analyzed the underlying cause for the variance. We do not know from ORA's exhibit, for example, whether every project was always under budget or whether this is a net figure. We also do not know whether managers were over-estimating costs in order to avoid overruns, in essence, looking good by beating an easy target. SDG&E's last rate setting procedure for capital expenditures was for a 1997 test year, so none of the intervening years' budgets relied on by ORA were prepared to withstand the scrutiny of a rate proceeding at the Commission.

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[141] Ex. 55, pp. DMB-4 and DMB-5.

[142] Ex. 302, p. 23-3.

We would decline to make this blanket forecast adjustment had we included Otay Mesa in rate base.

B. Electric Distribution

The range of estimates is as follows:

TABLE 8

Capital Projects Excluding Blanket and Information Technology	**2003** Millions	**2004** Millions
SDG&E Litigation Request[143]	$39.184	$31.030
ORA Adjustments		
Escalation[144]	0.816	0.697
Sustainable Community	2.000[145]	3.692[146]
Sorento Substation[147]	1.500	
ORA Litigation Recommendation	$34.870	$26.641
Proposed Settlement Agreement	$27.730	$18.184

C. Blanket Budgets

SDG&E had 121 capital budget items included in the Test Year 2004 revenue requirement, these were classed as either capital projects with over $500,000 in expenditures that generally increase the system capacity, or "blanket"

[143] SDG&E Comparison Exhibit, p. 140.

[144] ORA opening litigation brief, p. 227.

[145] Rebuttal Ex. 75, p. DLG-17, SDG&E reduced the 2003 request from $2.0 million to $0.

[146] This figure is the result of subtracting the escalation adjustment from SDG&E's request and calculating the difference between that amount and the final 2004 ORA recommendation of $26.641 million. For 2003, there is a $2,000 rounding error when the three specific adjustments are subtracted from the SDG&E 2003 request.

[147] Ex. 302, p. 21-11.

items that are smaller routine items recurring from year to year. ORA pointed out that in the 2003 and 2004 forecasts, the 30 blanket items represented 80% and 85%, of those years' expenditures. SDG&E presented testimony that described the project management process including a description of the Capital Project Summary (CPS), which is a control tool for approval and project management.[148] SDG&E provided a description, the purpose and scope for each work order, including the blanket work orders in Ex. 27, and also had supporting work papers and responses to data requests that were not always identified as an exhibit. These descriptions provided a clear and specific purpose for each project.

ORA examined a five-year average of the expenditures for SDG&E's blanket work orders. With four exceptions, ORA adjusted the forecast to rely on the average. The exceptions were projects with less than five years of history, and ORA accepted one for safety reasons, for two, it used the available average and it rejected the entire $7.5 million for information technology projects in 2004 because of a concern that the types of information technology projects included in the blanket cannot be forecast like capacity projects and also that there is a similar or duplicative project that also dealt with future information technology projects.[149] The following table summarizes the difference between ORA and SDG&E's position for the specific blanket budget categories address in ORA's testimony.

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[148] Ex. 27, p. DLG-128.

[149] Ex. 302, pp. 21-4 through 21-8.

Summary of SDG&E Recorded, Average, and Forecast Blanket Budget Categories[150]								
Category	1998	1999	2000	2001	2002	**Avg.**	2003	2004
New Business	$49,165	$56,383	$60,572	$69,222	$76,628	**$62,394**	$77,774	$80,756
Capacity & Substation	12,906	11,677	18,649	7,978	4,643	**11,171**	14,366	39,733
Reliability	36,389	41,938	41,957	33,423	47,450	**41,113**	54,287	58,195
Mandated	9,654	9,178	13,998	12,199	23,858	**11,841**	20,490	21,740
Franchise	22,529	30,296	31,130	16,574	38,568	**27,819**	30,000	27,250
Information Technology	0	0	0	0	0	**0**	0	0
Miscellaneous	1,371	888	1,390	1,345	2,193	**1,438**	1,814	1,886
Total	$132,014	$150,360	$167,696	$140,744	$193,340	**$155,777**	$198,731	$229,560

In rebuttal testimony, SDG&E points out that by relying on a historical average, ORA has ignored the linear trend over the same time period[151]. SDG&E points out that SDG&E's "…explicitly-derived forecasts related to the important cost drivers very nearly match the linear trend forecast. Had ORA used a straightforward linear trend approach to forecast instead of an average, it would have duplicated the 2004 SDG&E forecast based on past SDGE (sic) performance.[152]"

We agree with SDG&E that we should recognize increasing trends. However, SDG&E's chart comparing ORA's 5-year average to the actual and forecast annual budgets and historical linear trend fails to recognize the individual trends for each separate blanket budget category. 2001 appears to an

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[150] Ex. 302, p. 21-5

[151] Ex. 75, p. DLG-13

[152] Ex. 75, p. DLG-14

anomalous year for each budget category except for New Business, which shows a steadily increasing trend. Removing 2001 from the other categories reveal that only the Reliability and New Business categories show linear trends. The other budget categories show a relatively flat spending level. As such, we will adopt ORA's forecast based on a 5-year average for the following Blanket Budget Categories: (1) Capacity & Substation, (2) Mandated, (3) Franchise, (4) Information Technology and (5) Miscellaneous.

D. Project 230 – Underground Cable Replacement Program

UCAN proposed a specific adjustment to the underground cable replacement program, Project #230 that is included in the total Electric Distribution Blanket category. SDG&E forecast capital expenditures of $25.213 million and $29.5 million in 2003 and 2004, respectively, to replace underground (unjacketed)
cables that may fail, or are forecast to fail. SDG&E has averaged $15-$18 million annually. (Tr. 534).[153] UCAN included 2002-recorded data in its proposed forecast argued that SDG&E overestimated the replacement requirements compared to historical trends, and with a 5% escalation, UCAN proposed a reduction of $6.963 million in 2003 and $10.337 million in 2004.

SDG&E responded that the correct trend is upward, replacing more cable because underground cable is now a high percentage of its system and cable maintenance and replacement is critical to reliability. SDG&E is also critical of

[153] UCAN opening litigation brief, p. 97.

UCAN's calculations.[154] We are not prepared to reduce the level of funding for cable replacement, we find that SDG&E has raised valid concerns that UCAN over-estimated the rate of increase, and has not shown that the physical need for replacements is not true.

E. Capital Projects Other Than Blanket & Information Technology - Electric

1. Escalation

Projects forecast from Base Year 2001 until the test years are initially estimated in 2001 dollars. The costs are then escalated for inflation to reflect 2002, 2003, or 2004 expenditures.

ORA reviewed 71 capital projects and proposed three adjustments, one was an overall adjustment to the cost escalation method and two were project-specific disallowances. ORA presented a clear simple example that demonstrated for projects that had a multiple-year construction life SDG&E had over-stated the escalation by applying the highest rate applicable only to the last-year's expenditures, to total costs instead of escalating each year's costs separately.[155] ORA calculated adjustments of $816,000 in 2003 and $697,000 for 2004, solely for the poor calculation technique. We agree that escalation must be done accurately (even realizing the escalation rates are themselves only forecasts), and we expect SDG&E to correct any errors in this application in its work papers and spreadsheets (models) for the next rate case. We adopt ORA's disallowances.

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[154] Sempra opening litigation brief, pp. 70-73.

[155] Ex. 302, pp. 21-9 through 21-10.

2. Sorento Substation

ORA's second proposal was to reduce the 2003 cost for a future substation at Sorento by 50%, based on information from SDG&E after the application was filed, that actual cost were expected to be lower than forecast, so we would adopt this lower amount ($1.500 million in 2003) as a stipulation to later data.

3. Sustainable Community Energy Systems

The Sustainable Community Energy Systems (Sustainable Community) is a more contentious proposal. SDG&E requested capital funds of $2.0 million in 2003 and $8.0 million for 2004[156] for a new project, which the company described in two very general paragraphs in Ex. 27. It states that in future years, its expects to spend in excess of $10 million annually (Ex. 123, DLG-19). The company also asked for $1.6 million annually for O&M relating to this project.

It is disturbing that SDG&E would offer two abstract paragraphs to describe its intentions related to this major new proposed program. The project would provide funds for the engineering, design, materials, installation, testing, and maintenance of community-based energy strategies, state-of-the-art generation and storage technologies, and advances control devices.

The primary objectives of the program are admirable. They include ensuring environmentally sensitive energy solutions, stimulating the distributed generation industry, supporting and partnering with interested developers, and promoting energy and demand savings. The unanswered questions, however, include how the company would manage these funds, choose the projects, make

[156] Ex. 27, p. 197, Appendix A.

its decisions about the appropriate investments, and appropriately involve the affected communities.

SDG&E offered more extensive commentary about the philosophy behind the program in its rebuttal testimony (Ex.123), but little in terms of specifics about how the company would run the program. SDG&E only describes one potential project, called Market Street in Mar Vista, where the company proposes that "by working with the developer and builder from the ground up, SDG&E can assure that the best in energy efficiency, conservation and renewable energy technologies and practice are incorporated and work together to maximum (sic) the benefits and enhance the performance of each."[157] In this instance, what is left unsaid could fill volumes. What other projects would the company pursue? How would SDG&E determine the amount of its estimated budget to devote to this particular project? Where is the dividing line between activities that would promote broader ratepayer interests and activities that would merely help a developer promote its project, and how do we know that SDG&E will stay on the proper side of the line?

ORA proposed limiting the 2004 expenditures to $4.3 million.[158] UCAN is opposed to SDG&E's program as described, including post-test year expenditures, although it stated its strong support for the need to develop distributed generation. UCAN expressed concern at the size of the funding request in light of the limited details of the program. It pointed to the lack of any process for "stakeholder" input into the SDG&E program, and argued that

[157] Ex. 27, p. DLG-143.

[158] ORA opening litigation brief, p. 227.

SDG&E should explore options for external management by an entity such as the San Diego Regional Energy Office.

We share UCAN's concerns with the current proposal, as well as UCAN's interest in seeing a properly-designed effort brought back before us. We encourage SDG&E to pursue the refinement of its proposal and to present it to us in a future separate application. However, we will not approve the skeletal proposal in the current application. It is not possible, based on the record here, to determine how SDG&E would select projects, what funding SDG&E would provide (as opposed to developer or customer funds), whether SDG&E would use ratepayer funds solely for activities that are clearly in the interest of ratepayers, whether the investments would be cost-effective and, if not, how the company would limit its investments to some undefined appropriate level.

UCAN is correct to be concerned the SDG&E does not report having vetted its ideas with a broader community, or explain how it will ensure that funds will not be dispersed in a preferential way. Any future proposal in this area must describe, in detail, the projects that will be pursued, or provide detailed criteria that the company would consistently apply in choosing and serving projects. While we are grateful for SDG&E's interest in pursuing its stated goals, we need greater assurance that the efforts will serve the interests of all SDG&E ratepayers, and of the broader San Diego community.

a) Determining the Right Level of Capital Additions Funding

The Settlement Agreement has a substantially lower forecast than either SDG&E's request or even ORA's litigation position: $27.730 million in 2003 and

$18.184 million for 2004.[159] This is a reduction of $11.454 million in 2003 and $12.846 million in 2004 for a total effect of reducing the test year rate base by $24.3 million. The largest single adjustment is $5.7 million for the Sustainable Community project, reducing the 2003 and 2004 two-year total from $10.0 million to $4.3 million ($2.0 million in 2003 and $2.3 million in 2004). The balance of the reduction in the Partial Settlement is the result of deferring past the Test Year 6 specific additional projects in 2003 and five more projects in 2004.[160]

It is disconcerting to see this level of reduction and attendant detail appearing outside of litigated record; none of the 11 projects used to calculate

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[159] Correction to Settlement Agreement Attachment D, p. 147, provided on January 12, 2004, to the ALJ's Second Request for Additional Information. Answer 5: "The settling parties wish to note two errors on page 147 of the JCE (Joint Comparison Exhibit) that make it appear that the settlement outcome is higher than the SDG&E end-of-hearings position for this set of capital projects. First, the settling parties intended that the 2003 funding level for the 'Sustainable Community' capital project (CPS 2264) be maintained at the $2.0 million as proposed by SDG&E but that the 2004 funding level be reduced from $8.0 million to $2.3 million (for a total funding level of $4.3 million). However, the rationale for this reduction was omitted and the 2004 reduction was not made in the settlement Results of Operations model." And further, "there is a typographical error in the box identifying the settlement amounts. The correct figures should read '$27,730' for 2003 and '18,184' for 2004 (this includes the correction for the Sustainable Community project identified above)."

[160] SDG&E Settlement Comparison Exhibit, pp. 146 and 147 in 2003 defers: $1.980 million for the Spectrum New 69/12 kv substation; $2.350 million for the Sorrento Valley substation; $0.785 million for the EastGate new 12 kv circuit 1,154 and $0.739 million for circuit 1155; $3.6 million for substation land at Dana Point; and $2.0 million for substation land at Otay Ranch. In 2004, it defers: $1.282 million for the Valley Center 2nd Bank of transformers; $1.629 million for the Telegraph Canyon New 12 kv C1222; reusing an existing transformer to reduce the cost of the Santa Ysabel substation rebuild saving $1.772 million; reducing the costs of the Palomar Substation 3rd Bank and Circuit by $1.465 million; and deferring or canceling $0.998 million for the Cabrillo New 12 kv Circuit 485.

this reduction were questioned in the written or oral testimony of any witness. All of these projects would otherwise appear to be important for reliability and new customer growth and should have been carefully reviewed by ORA. All of these 11 projects are categorized as capacity and substation projects, part of 69 projects included in Exhibit 27.[161] Seven of the 11 projects are to resolve significant overload conditions as early as 2003, with overloads ranging from 2% at Telegraph Canyon to 20% at Palomar Airport. Because the majority of the costs for these 11 projects would only be deferred, it is very probable that the costs would promptly reappear in the form of rate base increases recorded in the attrition years following Test Year 2004. By the simple expedient of slipping costs into a later year, the Proposed Settlement looks better than it may really be.

In our discussion to reject the Proposed Settlements, we cite that the level of detail was insufficient overall to justify adoption of the settlement with any assurance that the applicants and consumers would have a clear expectation of service and the obligations imposed on SoCalGas and SDG&E to provide that service. The settling parties plead that the Commission should not "cherry-pick" the settlements, i.e., we should "adopt the Settlement Agreement without modification."[162] In this instance, where the details involving the deferral of significant construction forecast in the application for 2003 and 2004 are project specific, it would not be reasonable to use the litigation positions of any party for setting Test Year 2004 rates. The settling parties proposed that we adopt for

[161] Short descriptive testimony and a tabulation of all of these 69 projects are at pp. DLG-158 through DLG-182 and DLG 197 through DLG-199.

[162] December 19, 2003 Motion of Joint Parties for SDG&E's Proposed Settlement, p. 2.

ratemaking purposes the capital additions of $27.730 million in 2003 and $18.184 million for 2004. However, because we are rejecting the proposed sustainable community program, we will further reduce capital additions by $2 million (to $25.730 million) in 2003, and by $2.3 million (to $15.884 million) in 2004. Recovery of the 11 deferred projects will be considered in subsequent rate adjustment proceedings when SDG&E can demonstrate the projects are in fact installed and placed in service. We consider this adjustment to be inclusive for the escalation error, and direct SDG&E to correct the method for its next rate proceeding.

F. Information Technology - Electric

SDG&E has a program of investments in information technology projects that include replacement of obsolete software and hardware systems, and the development of new systems and enhancements to existing systems. Examples of replacement of obsolete systems requested in this application include the Geographic Information System ($5.3 million in 2004, Project 868) and Distribution Customer Service ($4.14 million in 2004, Project 1294)[163] two of several projects where ORA recommended changes. There were 15 projects in total included in Ex. 27 to develop the 2004 rate base estimate. ORA took exception to three, which we discuss below. We otherwise adopt as reasonable the Information Technology capital expenditures as proposed by SDG&E because we agree that the system replacements are necessary to maintain reliable service.

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[163] Ex. 27, pp. DLG-149 ff., and DLG 197 ff.

ORA argued that because there was no 2003 contract in-place for the Geographic Information System project it was unreasonable to include the $5.2 million 2003 estimate in deriving the final test year rate base. ORA did propose that the 2004 forecast of $5.3 million should be included because there would likely be work performed on the project.[164] SDG&E's accepted this adjustment and one other ORA adjustment of $1.715 million in 2003 estimates for Project 99821, Outage Management System II (OMS II).[165] ORA did accept the 2004 expenditure estimate for this second project.

SDG&E argued in rebuttal[166] that for project 1294, the $4.1 million 2004 costs for the Distribution Customer Service project represents in-house (SDG&E) costs and there would not be a contract to demonstrate the intention to perform the work as expected by ORA. We agree, and will include this estimate for 2004 capital expenditures.

We adopt $4.847 million in 2003 and $11.741 million in 2004 for capital investments in information technology projects.

G. Hourly Billing System (Phase II) - Electric

This project will up-grade SDG&E's ability to handle billing for customers with interval meters. ORA's final recommendation was a reduction of $1.1 million in the 2004 expenditures because the system would not be used and useful within the test year and SDG&E agreed with this adjustment in its rebuttal

[164] Ex. 302, p. 21-12.

[165] Ex. 75, p. DLG-23.

[166] Ex. 75, p. DLG-22.

testimony;[167] therefore, we will adopt the reduction of $1.1 million in 2004 and include only the unchallenged $0.3 million for 2003 and the remainder of $0.9 million for 2004.

H. San Onofre Nuclear Generating Station - Electric

SDG&E owns a 20% minority-interest of the San Onofre Nuclear Generating Station (SONGS) along with two other minority-interest owners, the City of Aneheim and City of Riverside. Edison is the majority-owner and the operating agent. Beginning in 1985, the Commission has litigated the O&M and Capital expenditures that are billed by Edison to SDG&E in the Edison rate proceedings for consistency and to avoid duplicate litigation. In this proceeding, SDG&E asked for $8.0 million[168] of its costs for Test Year 2004 that are beyond the scope of the costs to be recovered in the Edison proceeding.

SDG&E recovers most of its costs for SONGS based upon the Commission's decision in Edison's A.02-05-004. In that proceeding SDG&E made the following request:[169]

"In (A.02-05-004), SDG&E requests that the Commission:

- Approve SCE's forecasted SONGS costs as set forth in A.02-05-004.
- Approve $15.806 million as SDG&E's share of SONGS 2 & 3 capital additions for 2004 and authorize SDG&E to reflect this approved amount in calculating the depreciation expense and other costs

[167] Ex. 302, p. 9-28 corrected in Ex. 302E on p. 9-2 provide ORA's recommendation and Ex. 74, p. EF-55 provides SDG&E's concurrence.

[168] Ex. 38-E, p. MOR-3. See Table MRO-1 and footnote 1.

[169] D.04-07-022, mimeo., p. 60.

associated with these capital additions in its Test Year 2004 cost of service proceeding (A.02-12-027/A.02-12-028).

- Approve $67.585 million as SDG&E's share of SONGS 2 & 3 O&M expenses for 2004 (other than refueling outage expenses) and authorize SDG&E to reflect this revenue requirement in rates effective January 1, 2004.
- Approve $12.468 million as SDG&E's share of each SONGS 2 & 3 refueling outage that occurs in 2004 and 2005 and authorize SDG&E to file annual advice letters on November 1, 2003 and November 1, 2004 to specify the number of SONGS refueling outages expected to occur during the following year and the escalated cost per outage.
- Approve $2.635 million as SDG&E's share of SONGS 1 shutdown O&M expenses for 2004 and authorize SDG&E to reflect this revenue requirement in rates effective January 1, 2004."

As a result, in D.04-07-022, the Commission identified the reasonable 2004 capital expenditures and operating and maintenance expenses for SDG&E. The Commission explained its actions as follows:[170]

> "Since SDG&E's costs for SONGS are predicated upon its 20% ownership share, the amounts requested by SDG&E must be adjusted to reflect the corresponding 100% level of capital and O&M costs for SONGS 2 & 3 as well as the amortization period adopted in this decision. We will approve SDG&E's requests as set forth above, subject to the adjustments required to reflect SONGS-related determinations made in this decision."

Based on D.04-07-022, this decision includes $7.597 million for 2004 capital expenditures and $41.144 million for 2004 operating expenses.[171]

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[170] D.04-07-022, mimeo., p. 61.

[171] These expenses are included in Accounts 517, 519, 520, 523, 524, 525, 528, 529, 530, 531, and 532, in the results of operations in support of this decision.

I. SONGS Costs Not In Edison's Rate Case

1. New Security Requirements

On September 19, 2003, SDG&E served new testimony in Ex. 96 that added to the non-Edison costs in the proceeding the recovery of specific new requirements imposed by the Nuclear Regulatory Commission (NRC) on April 29, 2003, which was significantly after the testimony for Edison's proceeding or this proceeding was served on parties. SDG&E seeks in Ex. 96 to recover its share of the incremental costs associated with the NRC's Order Modifying Licenses adopting new security measures.[172] SDG&E sought recovery of $14.469 million, as 2004 capital expenditures and $0.76 million of O&M expenses as its 20% share of total costs.[173] We will not consider the 2005 O&M costs because they are beyond the test year for this proceeding.

As a threshold question, we must determine whether we can consider these costs within the scope of this proceeding. In its Opening Litigation Brief, in footnote 124, SDG&E details that Edison entered into an agreement with parties to its proceeding to forgo reflecting the reduced Federal tax liability associated with the *Jobs and Growth Tax Relief Reconciliation Act* of May 28, 2003, in exchange for also foregoing the recovery of the new costs that result from the April 2003 NRC requirements. SDG&E argues in footnote 123:

> "Per D.89-01-040 (p. B-26), the costs SDG&E seeks to recover to comply with the NRC's April 29, 2003 security orders are the

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[172] See Ex. 96, Attachment A is the entire April 29, 2003 NRC Order and cover memo entitled "Issuance of Order Requiring Compliance With Revised Design basis treat for Operating Power Reactors."

[173] Ex. 96, Table MRO-1 and MRO-2.

> proper subject of update testimony. Page B-26 of D.89-01-040 permits parties to serve testimony to address 'Known changes due to governmental action such as changes in tax rates, postage rates, or assessed valuation.' The NRC is a governmental entity and the new security orders issued on April 29, 2003 fall clearly within the scope of this rule."[174]

This authority to update is clearly intended to address the ministerial application of a change for an activity already known to be necessary, and in fact reflects *better facts* than were used in the original estimate. If, for example mid-way through a rate case tax rates are known to be higher or lower than were used in the initial rate filing, then either ratepayers or shareholders are protected from the effects of a bad estimate by allowing an up-date of the rate.

We find that SDG&E's position fails under this argument for two reasons: first, it relied on a procedure for general rate cases filed in conformance with the rate case processing plan that was adopted and further modified by D.89-01-040, but A.02-12-028 is not such an application. As already discussed, for SDG&E the requirement to file a general rate case for Test Year 1999 was first suspended by D.97-12-041 and it has filed under the less rigorous conditions of a "cost of service" proceeding. The second and most compelling reason is that the new NRC requirements simply are not a "known change" that can be updated, for example, by substituting 39 cents for the current 37 cents charged for postage. These security costs are a previously unknown and new requirement that was not anticipated in SDG&E's filing.

The decision in Edison's application did not decide the question of whether the April 29, 2003 order by the NRC was consistent with the rate case

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[174] Sempra opening litigation brief, p. 249 (electronic version) p. 245 (mimeo.).

processing plan; on September 29, 2003; Edison withdrew its July 15, 2003 motion to establish a balancing account.[175] We are deciding the update question for these costs for the first time in this proceeding and we find them not to be an update within the meaning of D.89-01-040. To find totally new mandates to be merely an update could compel us to either delay major proceedings late in the schedule or to unduly rush our review of potentially significant new actions by other government bodies. We reject SDG&E's argument that these costs are includable as an update under Commission practices.

We would otherwise find that SDG&E could file a separate application to seek recovery of the new security obligations that were not anticipated and not forecast at any level of specificity in A.02-12-028. But there is an appropriate and compelling reason why we should consider the recovery of the NRC-imposed program costs now and that is our obligation to provide adequate rates for SDG&E to provide safe and reliable service. The possibility that terrorists[176] could target SONGS or any other operating reactor is cause for concern. ORA in its Opening Litigation Brief expressed support for SDG&E's recovery of its share of these costs but pointed out that the costs have not been subject to any reasonableness review[177] as would occur if it had sufficient time to examine the Edison specific proposals and the NRC's subsequent approval.

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[175] Sempra opening brief, Footnote 124. Further, we may take judicial notice of the motion and its withdrawal in A.02-05-004.

[176] The NRC Order (Ex. 96, Att. A, p. 2) refers to "the current threat environment" and the "events of September 11, 2001." We see no reason to be coy in our decision about why we will make an exception to consider these costs at this late stage of the proceeding.

[177] ORA opening litigation brief, p. 189.

We find that it is in the public's interest for us to consider these costs at this time provided we also safeguard the economic interests of ratepayers.

In its Reply Brief, SDG&E argued that ORA had the opportunity to review these costs, five weeks from the service of Ex. 96 and the time when the witness testified. SDG&E also argued the testimony is an allowable update and not supplemental. We disagreed above with the characterization of these costs as an update. Even though ORA did not argue that it would have needed to examine the costs with Edison, and not SDG&E, we will emphasize that we want these costs reviewed before we allow final recovery; and in the middle of litigating the entire case for both SoCalGas and SDG&E, we would not have wanted a hurried review of the costs, even had ORA tried to review them. A detailed review here would have been counter to the convention that joint costs are litigated in Edison's proceeding and not in SDG&E's. Edison may have foregone its opportunity for recovery in its test year in A.02-05-004, but any ongoing capital recovery and future O&M expenses are likely to be at issue in Edison's next proceeding. The ratepayers of either company would not have been well served by a rushed review here.

SDG&E provides details of the specific capital expenditures proposed to comply with the NRC requirements In Attachment B to Ex. 96. We will allow SDG&E, subject to refund, to include the Test Year 2004 incremental revenue requirements solely for these expenditures that are beyond the scope of capital expenditures in A.02-05-004. When the Commission has its first opportunity to review the actual program costs, and provide interested parties due process, it will be in a subsequent Edison or joint Edison-SDG&E application, where any over-collection will be refunded by SDG&E to its ratepayers. What we authorize here is a one-way balancing account. We have not reviewed these costs in detail, nor do we have in the record an indication of the NRC's approval that the proposals are adequate. We believe that making the revenue requirement subject to refund is a balance that ensures SDG&E has the revenue to fund its share of the costs as currently forecast and the ratepayers have a 2004 cap of capital expenditures $14.469 million, and $0.76 million of O&M expenses until there is a thorough review with due process.

SDG&E provides details of the specific incremental O&M expenses in Attachment B to Ex. 96. These too are specific costs of $ 0.76 million in 2004 that are incremental to costs recoverable from A.02-05-004. We will allow these incremental security costs in the test year 2004 revenue requirements and require SDG&E to record these costs in a second balancing account,[178] subject to refund, and require supporting documentation to show that the costs are solely attributed to the new security requirements. The estimates are for 43 full-time equivalent positions and related costs; this O&M balancing account may only record these costs, for up to 43 positions, after first accounting for all positions funded in A.02-05-004. As with the capital expenditures, we are granting revenues in rates now, subject to refund at the full amount as forecast, and this balancing account with a cap is a reasonable safeguard for ratepayers in

[178] Balancing accounts have an associated expectation of recovery. They are accounts that have been pre-authorized by the Commission, and it is the recorded amounts – and not the creation of the accounts themselves – that the Commission reviews for reasonableness. Memorandum accounts, in contrast, are accounts in which the utilities book amounts for tracking purposes. While the utilities may later ask for recovery of the amounts in those accounts, their recovery is not a given. In this instance we approve the program, but the costs are subject to further review, so a balancing account is the appropriate mechanism.

exchange for SDG&E avoiding the requirement to incur these costs without rate relief until a later application could be litigated.

Before we will authorize final recovery of any of these costs, SDG&E[179] must make a clear and complete showing that (1) the recorded costs are attributable solely to new security activities and investments that are required by the April 29, 2003 NRC orders; (2) the recorded costs are truly incremental, i.e., they are not included in this Phase 1 decision; (3) if any current (i.e., included in this proceeding) security activities or planned investments are supplanted by compliance with the new NRC requirements, so that costs for those activities and investments are reduced, such cost reductions are properly accounted for; (4) the costs must be incurred by SDG&E and the other plant owners, and not by taxpayers; and (5) the recorded costs are otherwise reasonable. The balancing accounts as authorized in this decision in no way reduce SDG&E's burden of proof to justify the reasonableness of recovering these costs.

2. Other Costs Not Billed by Edison

SDG&E sought recovery of $2.0 million for three items in this application of SONGS costs that are not in the Edison case.[180] These costs were unopposed, except for one by UCAN, and are adopted as proposed by SDG&E; they are discussed solely to clarify and distinguish them from the security costs above and the much larger costs that we imported from A.02-05-004 in D.04-07-022.

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179 As with most other SONGS costs, this review may be in an Edison proceeding, except for any costs unique to SDG&E that should be addressed in SDG&E's next appropriate rate case.

180 All three items are described in Ex. 38 and 38-E, pp. MRO-5 through MRO-6.

SDG&E sought to recover costs allocated to it for the Department of Energy's decontamination and decommissioning of uranium enrichment plants. Title XI of the Energy Policy Act of 1992 created a fund for this purpose and SDG&E's 2004 share for its 20% interest in SONGS is $1.2 million. No party disputed this amount.

The second item was $0.800 million in 2004 for SDG&E's share of the cost to store spent fuel (used and no longer useful) from SONGS Unit 1. UCAN argued that 100% of the capital cost of spent fuel storage should be disallowed, because this project was part of the capital spending specifically requested in the Incremental Cost Incentive Proceeding (ICIP) and it was deferred past the ICIP period in large part as a result of ratepayer-funded decommissioning spending at SONGS 1.[181] It is not clear that UCAN is targeting this $0.8 million; its comments refer to its positions in A.02-05-004 on fuel storage. We defer to A.02-05-004 for all costs in that proceeding and to the extent we are looking at unique and separate fuel storage costs here, we conclude that SDG&E is seeking current operating costs for storage and these are not the same costs that concerned UCAN in A.02-05-004. We find the $0.8 million in 2004 for SONGS Unit 1 spent fuel storage to be a reasonable test year expense.

The final cost is the $0.020 million ($20,147 to be precise) annual payment to the Department of the Navy for its share for a site easement on Camp Pendleton, where SONGS is located. This cost is reasonable and is adopted.

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[181] Opening brief – UCAN, p. 300.

Finally, SDG&E requested $5 million[182] in other costs, for depreciation, taxes and franchise fees, nuclear insurance, uncollectables and rate of return. These are addressed elsewhere and included in the appropriate accounts. Depreciation and return are calculated based upon inclusion of the capital additions from D.04-07-022 to SDG&E's existing plant accounts in the adopted results of operations. Insurance is addressed in administrative and general expenses and the remainder are included in the results of operations in the appropriate accounts.

J. SDG&E Line Extension Issues

UCAN raised as an issue that SDG&E was not in compliance with the Commission's policy on ratepayer versus developer funding of certain capital costs for transformers, services and meters. Citing to D.97-06-098, UCAN argued that customers (through base rates) should provide only those costs that are "revenue justified" and therefore *per se* reasonable to attract new customers.[183] SDG&E argued the issues are correctly includable in R.92-03-050 – ongoing now for 12 years – and we will not pursue this further other than observe that UCAN's objections are not based on an examination of specific past line extension calculations to demonstrate that SDG&E has incorrectly applied its tariffs. The policy objections to line extension calculations belong in the Rulemaking. We cannot unravel the UCAN policy proposal from the other

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[182] Ex. 38 and Ex. 38-E.

[183] UCAN opening litigation brief, pp. 103-119. UCAN provides an extensive recital of its testimony in Ex. 604.

forecast issues – primarily how many extensions are likely in the test year – and we therefore reject UCAN's proposal.

XVII. Working Cash – SoCalGas and SDG&E

Working cash is an allowance added to rate base that represents the funds provided by investors that are needed to pay for current operating expenses and provide a financial cushion. One major element in estimating the working cash need is the "lead/lag" that exists between when the company must pay its bills to suppliers for goods and services used to provide utility service and the time when the company receives payment for services from the consumers. This could be negative (in that the company needs cash to pay its suppliers ahead of receiving customer payment) or positive (customer payments arrive before payment to suppliers).

A. Federal & State Tax Payment Lag

ORA proposed to use data that it identified as 2002 tax payment information to determine the appropriate lag-days for SoCalGas and SDG&E.[184] Both companies disagreed.

SoCalGas argued that it had not yet filed its 2002 tax returns, but we observe tax payments do not necessarily follow the filing of corporate tax returns. In its reply brief, ORA points out that it had, in fact, had "used the actual 2002 fourth quarter payments for 2002, *i.e.* the actual check amounts paid for tax. The actual fourth quarter payment for 2002 was the stated payment of $56.974 million (federal tax) and $19.888 million (state tax) in Exhibit 81, p. 6, line 4[185]"

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[184] Ex. 301, p. 26-5 and Ex. 302, p. 26-5.

[185] ORA reply brief, p. 12

excluding the RTP Adjustment in Decmeber 2002. ORA's raises the concern that overpayments and refunds could allow SoCalGas to game the system. A quick review of SoCalGas' rebuttal testimony highlights ORA's concern.

The majority of the payments were made in the second half of the year for both 2001 and 2002. ORA points out that the lag days associated with the refund made in March 2003 for 2002 and December 2002 for 2001 is overstated since it is calculated from July of the previous year based on the assumption that the full payments were made on time rather than from the date of the overpayment. While the record does not provide enough information to calculate the actual lag days for refunds, ORA nonetheless raises a very valid concern that the company may not have calculated the lags associated with refunds correctly. Removing the refund adjustments, SoCalGas shows that for the three years 2000 through 2002, the federal lag days is between 78 and 87 days while the state lag days is between 67.4 and 70.0 days.

We will adopt ORA's Federal and State tax forecast of lag days for SoCalGas and SDG&E.

B. Municipal Taxes

TURN and UCAN argued that SoCalGas and SDG&E have understated the "lag-days" and they proposed to "synchronize" the taxes to the gas commodity prices.[186] SoCalGas and SDG&E responded that the lag days are not wrong and that the intervenors incorrectly use the (lower) commodity charge instead of (higher) total revenues – taxes are charged on total revenues.[187] For

[186] Ex. 501, p. 49.

[187] Sempra opening litigation brief, p. 286.

SoCalGas, a correct adjustment for revenue lag would be 42.61 days, based on a 13-month methodology. Included is a component for the collection lag that SoCalGas corrects to 25.40 days. By using both the correct base for taxes and the corrected lag days, SoCalGas reduces its rate base component for Municipal Taxes from $19.003 million to $15.277 million, a $3.727 million reduction.[188]

We accept the SoCalGas corrections as the most reasonable estimation method and adopt the corrected calculation, above.

C. Revenue Lag

Revenue lag is the delay between customer receipt and payment of their utility bill. SoCalGas used 2001 base year to estimate its forecast revenue lag days of 42.73 days (25.52 days for collection lag and 17.21 days for other lags). In particular, SoCalGas used the 13-month period December 200 to December 2001 for accounts receivable and from January 2001

TURN recommends adopting a lower collection lag of 21.20 days based on the 12-month period October 2001 through September 2002. TURN claims that SoCalGas used a 13-month period which coincided with unusually high natural gas prices. Further, TURN points out that "in the eight months from through September 2001, receivables averaged 84.8% of SoCalGas' monthly sales. However, in the corresponding nine months from January through September 2002, receivables averaged only 71.18% of sales.[189]" In contrast, SoCalGas argues that TURN has selectively used unusually low gas prices for each month of the

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[188] Ex. 127, pp SWK-3 through SWK-7, and SWK-13.

[189] TURN opening brief, p. 154

time period used by TURN. Both claim that the other has used selective time periods to forecast the revenue lag.

It is important to use a time period which properly reflects reality. SoCalGas' initial testimony would forecast the revenue lag based on the test year 2001 – which it claims is the correct time frame as it's the same time period used as the basis for the revenue requirement request. While we have generally accepted the companies' forecast methodology which uses 2001 recorded as the basis, we also need to recognize when it is appropriate to deviate for legitimate reasons. In this case, the base year coincides with high natural gas prices. Indeed, other proceedings at the Commission are currently looking into this precise matter. It would not be wise to ignore more recent date in light of the unusually high prices during the 13-month time period used by SoCalGas. While it may or may not be true that TURN's time period has unusually low natural gas prices, it is certainly true that SoCalGas' time period has unusually high prices. We will adopt TURN's recommended forecast for revenue lag days.

D. Accrued Vacation and Withholdings

TURN and UCAN proposed to adjust the estimate for accrued vacation and withholding by using the adopted labor escalation rate. SoCalGas agreed (Ex. 27, p. 7) but disputed the second proposal that the change in accrual should reflect the same percentage change in O&M labor over the base-year. SoCalGas argued that "older workers" with 15-years or more of service earn more vacation (four to six weeks) compared to new replacement employees who earn only one to two weeks for the first five years. SoCalGas and SDG&E argued that as new employees are hired, they replace more experienced employees who are promoted. We do not find sufficient evidence to support the calculation and so we will not make the adjustment at this time.

E. Customer Deposits

SoCalGas and SDG&E tariffs require that an applicant for new service establish credit. A customer who has not qualified for the establishment of credit with the utility must submit a deposit pursuant to the utilities' Commission-approved tariff rules. SoCalGas and SDG&E are required to refund customer deposits with interest within 12 months as long as the customer pays his or her bills timely. Between 1997 and 2001, SoCalGas had average deposit balances of $35.088 million[190] and SDG&E had balances between $22 million and $24 million.[191]

TURN and UCAN contended that customer deposits represent a permanent source of working capital not provided by investors. However, customer deposits are not counted as an offset to the operational cash requirement under current practice. This is because SoCalGas and SDG&E pay interest on the deposits (at the three-month commercial paper rate, which is currently less than 2%), and the Commission's Standard Practice U-16 (U-16) indicates that while interest-free customer deposits should be counted as working cash, those on which the utility does pay interest should not be counted as working cash.[192]

TURN and UCAN therefore recommended that the Commission, as a matter of policy, amend the "interest-free" restriction of U-16 as it specifically relates to customer deposits held by SoCalGas. TURN's specific

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[190] Ex. 501, p. 52, excluding 2002, which is beyond the base year.

[191] Interpreting a chart without a data table, see Ex. 602, p. 75.

[192] Ex. 501, pp. 51-53.

recommendation in this proceeding was to reduce the test year rate base by $43.6 million based on escalating the 2001 data for TURN's forecast of customer growth to mid-2004. UCAN calculated $26.070 million for SDG&E. TURN and UCAN further recommended that if the Commission treats deposits as a rate base offset, it should also increase SoCalGas and SDG&E's operating expenses to reflect interest payable on customer deposits at a projected interest rate of 2%.

This recommendation is identical to TURN's recommendation in Edison's A.02-05-004 and adopted in D.04-07-022.[193]

SoCalGas and SDG&E vigorously opposed the adjustment,[194] as Edison did in its proceeding. Applicants argued the recommendation conflicted with the standard practice, but for Edison the Commission found it reasonable to deviate from U-16. Edison lost its argument in A.02-050-004 that was based on comparing customer deposits to its historical investment in fuel oil inventories that was limited, for ratemaking purposes, to short-term interest. The Commission found:

> "in rejecting SCE's proposal (in 1996) to rate base a portion of fuel inventory, the Commission held that "the risk Edison is offering to assume [of a change in value of the inventory] is not significant enough to justify a change in financing of the carrying costs." (64 CPUC 2d 241, 382, Finding of Fact 110-111.) SCE has not demonstrated to our satisfaction that the circumstances that led the Commission to reject SCE's proposal

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[193] See D.04-07-022, mimeo., pp. 251-257.

[194] Sempra opening litigation brief, pp. 292-294.

> to rate base fuel inventory are equivalent to the circumstances attendant to TURN's proposal for customer deposits."[195]

SoCalGas and SDG&E made essentially the same arguments as Edison. SoCalGas and SDG&E argued that they have large comparable amounts of shareholder capital committed to serving customers that does not earn a full cost of capital return, and the proposed treatment of customer deposits is inconsistent. SoCalGas and SDG&E argued that if the Commission treated customer deposits as an offset to rate base that would otherwise earn the authorized rate of return on rate base, to be fair we would have to change the treatment of other similar items that have previously been authorized to only earn interest at the short-term commercial paper rate. SoCalGas further stated that it currently has an average of $53.8 million of working gas inventory, where it is only authorized to earn the short-term commercial paper rate, not the authorized rate of return.[196] Applicants argued there is no reason to provide a lower return on this investment in inventory, provided by shareholders, than would be paid on the customer deposits provided by new customers. There is a comparable argument for SDG&E that has a $21.2 million investment in working gas inventory.

The question before us now is whether the current ratemaking treatment for SoCalGas and SDG&E is distinguishable from Edison.

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[195] D.04-07-022, mimeo., pp. 256-257.

[196] Ex. 127, p. SWK-9.

The Commission has previously decided that the working gas inventories should accrue a short-term interest allowance.[197] These inventories are similar to Edison's fuel oil inventories in that they are both necessary for the operation of the system and they were found to lack the same element of risk associated with assets that earn the full rate of return when included in rate base, as was described in D.04-07-022. These are not the proceedings where SoCalGas and SDG&E may pursue a change in the ratemaking treatment for working gas inventories based on the equity argument or other arguments addressing the current risk compared to allowed return.

SoCalGas and SDG&E situation cannot be distinguished from Edison's and so we may consider applying the same treatment accorded to Edison's customer deposits to those of SoCalGas and SDG&E. Customer deposits are risk-free to SoCalGas and SDG&E, and the cost for the use of these funds is limited to the interest accrued and paid to customers when deposits are refunded.

If SoCalGas and SDG&E had no customer deposits, would they have to either borrow more money for working cash or to finance long-term plant included in rate base? Applicants argue the deposits do not finance long-term rate base because the funds are temporary.[198] Because the balance turns over continually as old deposits are refunded and new ones are made, we agree with SoCalGas and SDG&E that customer deposits do not finance long-term investments. But customer deposits can replace short-term borrowing. SoCalGas and SDG&E did not argue the customer deposits did not replace short-

[197] Sempra opening litigation brief, p. 293.

[198] Sempra opening litigation brief, p. 293.

term borrowing. U-16 only calculates a needed amount of working cash[199] but the applicants have not shown they will borrow that amount as short-term debt in the test year. Applicants' ratemaking models do not show customer deposits as available funds not provided by investors. We can conclude that in practice, SoCalGas and SDG&E use the deposits in lieu of borrowing the amount projected by U-16.

Therefore, we will adopt the recommendations of TURN and UCAN and reduce the working cash rate base component by the average of $35 million and $23 million for SoCalGas and SDG&E, respectively. We will authorize SoCalGas and SDG&E to recover interest at the forecast commercial paper rate of 2%, or $0.700 million and $0.460 million, respectively, in the 2004 base margin.

F. Hub and Swap Revenues

In its opening litigation brief,[200] TURN proposed to reduce by 25% the Accounts Receivables attributable to hub and swap transactions, or $2.6 million, that would reduce the working cash calculation for SoCalGas. TURN argued that hub and swap transactions utilize core capacity and commodity assets and therefore working cash requirements should be reduced because revenues generated by hub transactions offset the purchased cost of gas and contribute to savings that may result in increased shareholder rewards under the Gas Cost Incentive Mechanism (GCIM).

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[199] It is possible that working cash would exceed needs, but the applicants' calculations show a need for additional working cash that becomes the rate base component in dispute.

[200] Pages 147-148.

SoCalGas responded[201] to this proposal by pointing out that the revenues are recorded in full in the Purchased Gas Account (PGA), which has the effect of reducing gas costs recovered from core customers. Subsequently, under the GCIM there is sharing incentive mechanism that allocates any gains outside of a deadband between customers and shareholders. SoCalGas argued that this proposal is a piecemeal change to the GCIM.

We disagree. TURN correctly points out that "without the use of core assets for transactions it is much less likely that shareholders would see any benefits.[202]" We will adopt a reduction to Accounts Receivable by 25% to reflect hub and swap transactions as proposed by TURN.

XVIII. Depreciation – SoCalGas and SDG&E

Depreciation is the ratemaking and accounting process that allocates capital expenditures included in rate base to an expense, depreciation expense, which is recoverable in test year rates. The effect of depreciation is to allocate the large cost of assets over their full useful life. As a result, over time, the recovery of annual depreciation expenses in retail rates ensures that ratepayers are paying a reasonable allocation of the full cost of plant and equipment necessary to provide service to them. The details become very complicated; identifying the proper useful lives of numerous classes of assets and the millions of individual assets involved, dealing with changing estimates in any salvage or removal costs, and any other necessary adjustments. All retirements of plant affect the

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[201] Sempra opening litigation brief, p. 295.

[202] TURN opening brief, p. 148

accumulated depreciation balance, so that over time, all investment is recovered regardless of actual service life.

In this section, we make appropriate adjustments to the depreciation requests of SoCalGas and SDG&E to reflect the Test Year 2004 rate base as adopted in this decision, and we address two other issues regarding net salvage value and the treatment of land rights.

A. Simple Example of Depreciation

Depreciation for SoCalGas and SDG&E is calculated separately for individual types of assets and for each generation of assets; for example, distribution-level pipeline would be tracked by type, size and vintage, and the Commission uses a "straight-line" method over the expected remaining life. To illustrate, (ignoring all other assets over time) if pipeline equipment costing $100,000 is installed in Year 1, and it is expected to last 10 years, depreciation would be $10,0000 per year ($100,000/10 years original life). If the depreciation is reviewed at Year 5, and it is likely that the pipeline equipment will last not just the remaining five years, but will really provide service for another 10 years, then the remaining investment of $50,000 ($100,000 less the first five years' depreciation at $10,000 each) is now depreciated at $5,000 per year ($50,000/10 years remaining life). Depreciation expense would be reduced in rates to reflect the longer remaining life to recover the un-depreciated cost.

B. Remaining Life Estimates for SoCalGas and SDG&E

ORA examined for both SoCalGas and SDG&E the utilities' detailed studies for the assets in service, and there was no dispute on the results of those studies.[203] In fact, the results are to generally lengthen the remaining lives. Therefore, due to this one factor alone, depreciation rates are lower, and thus the expense estimate declines for Test Year 2004, essentially as illustrated above, when compared to using the older depreciation rates. The applicants' witness testified that the remaining life studies were consistent with the Commission's Standard Practice for depreciation.[204] We find the remaining life studies to be reasonable and adopt the results of the studies using them to calculate this portion of the test year depreciation expense after recognizing all other adjustments to the rate base before depreciation.

C. Simple Example of Net Salvage

ORA disagreed with SoCalGas and SDG&E about one further component of depreciation that recognizes the cost of removing old plant, less any salvage value. Again, a simple illustration is useful; if the same hypothetical $100,000 of assets in Year 1 was expected to cost $12,000 to remove from service and it would be worth $2,000 for scrap in Year 10 at the end of the service life, then the "net salvage" cost would be $10,000 ($12,000 – 2,000). To recover this expected net salvage cost, the utility would add $1,000 to annual depreciation expense ($10,000 net/10 years original life). So the total cost for both depreciation and net salvage in Year 1, for this one asset example, would be $11,000 ($10,000 plus $1,000).

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[203] ORA opening litigation brief, pp. 236-240. See also Ex. 302, p. 25-3 where ORA agrees to use the new study for its forecast of depreciation.

[204] Ex. 16, p. REL-1, reference to *Standard Practice U-4, Determination of Straight-Line Remaining Life Depreciation Accruals*. See also, Transcript pp. 1,814, line 3 through p. 1,815, line 11.

D. Net Salvage Estimates for SoCalGas and SDG&E

ORA disagreed with SoCalGas' and SDG&E's approach to calculating net salvage costs. SoCalGas and SDG&E used the method (for both remaining life and net salvage) described in *Standard Practice U-4 Determination of Straight-Line Remaining LifeDepreciation Accruals (Standard Practice U-4)* adopted in 1961.[205] SoCalGas and SDG&E calculated net salvage as a percentage of retired plant costs.[206] The entire prepared testimony for SoCalGas in Ex. 16 is 10 lines, its rebuttal in Ex. 91 runs to four pages. (Unlike the simple illustration above, it is not specifically shown in detail in the testimony.) There were detailed work papers and data responses that are not identified as exhibits. For SoCalGas, the last time the calculations for depreciaion rates and net salvage rated were adopted was for Test Year 1994 in D.93-12-043. Since that time, the rates were not changed and the company's retail rates charged to customers changed only as a result of the performance-based ratemaking in place and not because of a review of depreciation rates before the Commission.

ORA argued that the method as applied by SoCalGas and SDG&E does not track net salvage by vintage year (year of installation and that the estimated costs of removal are overstated, and also arguing that actual costs of removal have been far lower than the allowance for net salvage included in rates.[207]

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[205] Ex 16, p. REL-2.

[206] Transcript p. 1,835, lines 3-12.

[207] Ex. 302, p. 25-8

ORA's solution was to leave in place the old (lower) net salvage rates.[208] SoCalGas, for example pointed out that the studies result in a $46.5 million decrease of depreciation and a $7.6 million increase of net salvage for a revenue requirement reduction of $38.9 million.[209]

ORA states that SDG&E's actual costs for 1996 through 2001 were $13 million but the old rates generated $45 million. If accruals are too high, then current ratepayers might over-contribute to the total recovery of depreciation plus net salvage compared to later ratepayers; creating a timing problem between generations. SoCal Gas and SDG&E will not over-recover in total, because ultimately they will never collect more than the original costs of every asset and the actual costs of net salvage.

We cannot put into place salvage rates that are not clearly consistent with the actual salvage experience. We direct SoCalGas and SDG&E to meet and confer with ORA, TURN and UCAN in advance of filing the next rate case and propose in that application any necessary up-date to the methods used to forecast depreciation and net salvage.

Accordingly, we will not adopt the salvage rates as calculated by SoCalGas and SDG&E. SoCalGas and SDG&E failed to demonstrate that the proposed new rates are reasonable.

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[208] *Id.*

[209] Ex. 91, p. REL-2

XIX. Land Rights

ORA proposed a change in policy for the treatment of land rights for SoCalGas and SDG&E. Land rights have previously been amortized[210] in rates rather than remaining indefinitely in rate base at the full acquisition cost. SDG&E has amortized land rights in rates since 1971 and SoCalGas has been allowed for some time to amortize them too. ORA went further and wants to exclude the costs from rate base.[211] Both SoCalGas and SDG&E argued in response that the land rights at issue are not related to other parcels of land that are purchased outright by the companies. They argue that over time the value often declines to zero. They also point out that excluding the cost from rate base would preclude them from ever recovering the capital expenditure to acquire the land rights in the first place.[212]

ORA did not argue justify that the land rights should have never been acquired, which would support excluding their recovery (in any manner). ORA did not challenge the declining value argument raised by SoCalGas and SDG&E, which would only justify not amortizing the costs, but would then implicitly argued for retaining the original cost in rate base in perpetuity (or until the rights are disposed of or no longer used and useful). Under the utilities' proposal, the capital expenditure is eventually eliminated from rate base and the customers who receive any benefit pay that cost. We decline to make a change to the

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[210] SoCalGas uses the term "depreciation," incorrectly, in that depreciation applies to tangible assets whereas the correct accounting terminology applicable to intangible assets, such as land rights, is amortization.

[211] Ex. 302, p. 25-11 and 25-12, and Ex. 301, pp. 25-10 and 25-11.

[212] Sempra opening litigation brief, p. 295.

current practice and will adopt the Test Year 2004 estimates as proposed by SoCalGas and SDG&E.

XX. Test Year 2004 Customer Forecast

SoCalGas and SDG&E developed the test year forecast for residential, commercial and industrial customers using economic and demographic assumptions from a third-party index prepared by Data Resources, Inc.[213] After reviewing them, no party took issue with the customer forecast for SoCalGas and SDG&E in Test Year 2004; ORA asserted that it tested the estimates and derived similar forecasts. We therefore find the forecasts to be reasonable and adopt these estimates shown below.

Table 9

SoCalGas Average 2004 Active Meters by Customer Class	
Residential single-family	3,378,000
Residential multi-family	1,623,000
Residential master meter	44,000
Commercial	189,000
Industrial	22,000
Total	**5,256,000**
SDG&E Average 2004 Active Meters by Customer Class	
ELECTRIC	
Residential	1,165,857
Small Commercial	117,122
Large Comm./Industrial	19,223
Agriculture	3,400
Street Lighting	5,832

[213] Ex. 24, pp. SSRW-2 ff., and Ex. 50, pp. GK-1, ff.

Total	**1,311,434**

Table 10

NATURAL GAS	
Residential	781,864
Small Commercial	29,713
Natural Gas Vehicles	232
Non-Core	125
Total	**811,934**

XXI. Clearing Accounts

A. SDG&E Account 163 – Purchasing and Warehousing

SDG&E forecast $6.337 million in 2004 for purchasing and warehousing expenses. In testimony, the applicant described 12 discrete changes from the base year 2001 to derive its 2004 estimate. ORA proposed an adjustment based upon 2002 actual costs compared to forecast differences, that amount to $0.337 million, about 5% of SDG&E's request. The adjustment would take a one data point difference in 2002 expenses, and apply that to the base year and all intervening years. The applicant has made a reasonable forecast of the expected changes from the base year to the test year. We cannot expect perfection and we do not have sufficient reason to believe that the 2002 difference will continue. We will adopt $6.337 million for Test Year 2004.

B. SoCalGas Account 184.2 – Business Solutions

This clearing account includes expenses associated with acquiring operating and maintaining vehicles and construction equipment. ORA effectively had a higher recommendation than SoCalGas' final request for $37.082 million because of changes agreed to in rebuttal to TURN and by not addressing a license fee increase. TURN proposed $2.78 million in adjustments for 25% fewer new vehicles to be consistent with lower employee estimates, lower interest rates for leases, and other miscellaneous adjustments.[214] In rebuttal, SoCalGas did not agree with TURN, but did recalibrate three of the adjustments. It recalibrated interest and fuel cost adjustments from $1.5 million down to $1.1 million. For SoCalGas, fleet vehicles declined by $0.13 million based on reductions in other testimony for customer service needs. Additionally, fewer fleet positions (TURN proposed 12 not 19) would result in a $0.368 adjustment. Thus, SoCalGas recalibrates TURN's total adjustment to $1.165 million. SoCalGas disagreed with the TURN's other adjustments.[215]

As shown in other expense accounts, issues about the size of the labor force generally in this decision, and in the discussion of labor for customer service expense accounts, there is a possibility that not all positions will be filled, and thus not all vehicles will be needed, along with the positions to support them. We will utilize the recalibrated reduction of $1.165 million as a reasonable adjustment for the likely actual needs for vehicles and support positions, and authorize $35.917 million for 2004 in Account 184.2.

C. SDG&E Account 184.2 – Fleet

ORA proposed an adjustment based upon 2002 actual costs compared to forecast differences of 3%. 2001 was the recorded base year for the test year, and then, as discussed previously, successive years are forecast to reach Test Year

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[214] Ex. 501, pp. 22 – 23.

[215] Ex. 129, pp. RAK-1 through RAK-6.

2004. ORA therefore adjusted 2004 downward by 3%.[216] What is not justified is why this one-time relatively low percentage difference is indicative of 2004 activity. UCAN presented the same witness on SDG&E estimates as TURN for SoCalGas; the adjustments were comparable for fleet lease rates, etc., discussed above. UCAN recommends a reduction of $0.526 million, for a 2004 test year estimate of $25.806 million. We will adopt UCAN's adjustment to be consistent.

D. SoCalGas Account 184.3 – Capital Tool Repair and Reconditioning

TURN argued that SoCalGas selectively increased the escalation for capital tool repairs – a double escalation - because the costs are already subject to the company-wide non-labor escalation factor[217] and therefore the forecast should be reduced by $0.047 million. SoCalGas argued the rate of escalation should either be the higher actual rate or the standard rate. We agree with TURN and use a standard rate, otherwise every account potentially becomes an exception. We will reduce Account 184.3 by $0.047 million.

E. SoCalGas Account 184.4 – Customer Services

In this account, SoCalGas recovers the costs of small tools, repairs, uniforms and coveralls for employees charged to Account 879, Customer Service Operations and Information. ORA proposed an adjustment consistent with its adjustment for a lower forecast of workload. Based on the treatment we accord Account 879, we decline to make this adjustment.

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[216] Ex. 302, p. 12-4.

[217] Ex. 501, p. 4.

F. SoCalGas Account 184.6 – Tools and Uniforms

ORA proposed an adjustment of $1,500,000 based upon its adjusted employee count and a further adjustment to reflect ORA's proposed decreases to gas distribution capital expenses.[218] SoCalGas argued that both adjustments are unreasonable; the costs in the account are not directly proportional to employee head counts and that a reduction, if any, to capital costs for gas distribution does not necessarily affect employees' tools and uniforms requirements. Non-Labor costs for contractors are a part of ORA's capital reduction, which would not affect this account.[219] We agree that ORA did not show a direct relationship and we will not make ORA's adjustment.

TURN engaged in a detailed analysis of the costs for tools that included consideration of the switch from previously capitalizing costs over $500. TURN proposed that tool costs should be reduced by $0.079 million, based on the capital budget as developed by TURN, and $0.488 million to adjust for "new tools," due to SoCalGas' increased workforce. TURN also proposed a "normalizing" adjustment of $0.328 million for planned tool replacements. Such an adjustment in effect reverses the capital to expense switch, and we will decline to make this adjustment. TURN did not show that there would be only a one-time replacement; it appears to be the ongoing effect of switching to expensing more tools.

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[218] Ex., p. 8-7.

[219] Sempra opening litigation brief, p. 22.

We will adopt the TURN adjustment of $0.488 million for new tools related to work force changes. Replacement employees should be able to use existing tools.

TURN also proposed a reduction of $0.045 million for uniforms, based on employee count. We will not make this adjustment; we are reluctant to try and manage every cost to such detail.

XXII. Operating & Maintenance – Gas Storage (SoCalGas)

SoCalGas operates underground gas storage facilities. In D.01-12-018, the Commission adopted a CSA that modified the market and regulatory framework for regulating the transportation and storage of natural gas on SoCalGas' system. On April 1, 2004, the Commission issued D.04-04-015, which does not establish new polices and does not modify either the CSA or D.01-12-018. However, it was stayed pending the issuance of a decision in Phase I of Order Instituting Rulemaking 04-01-025.[220] SoCalGas stated that in this decision the Commission must adopt a revenue requirement for gas storage (to make it financially whole) to be effective from January 1, 2004, until such time as the CSA is implemented. The revenue requirement would be subject to the same memorandum account as all Test Year 2004 revenue requirements adopted in D.03-12-057. In light of the stay on D.04-04-015, it is possible that this revenue requirement will be in effect for some time.

There are five accounts where parties litigated significant issues that we resolve in this decision. Except for those items, we otherwise adopt SoCalGas'

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[220] D.04-04-015, OP 4, mimeo., p. 81.

end-of-litigation position for gas storage operating and maintenance (O&M) expenses for Test Year 2004. SoCalGas stated that for all gas storage O&M accounts it consistently took a base year of 2001 and then made forecast adjustments. As discussed, we accept the method as appropriate, subject to the specific details of the individual account.

ORA applied a three-year average to 18 accounts, 814 through 837, and for 14, the three-year average was lower than SoCalGas' estimate, and ORA accepted the estimates.[221] ORA took exception to two accounts, 814 and 824

A. SoCalGas Account 807 Gas Acquisition Costs

The SoCalGas Comparison Exhibit, Ex. 149, reflected a difference of $186,000 in the results of operations spreadsheets for SoCalGas and ORA. The parties agreed that Account 807 should be reduced by $186,000 associated with upgrading technology for the Gas Acquisition Group; these costs should have been capitalized.[222] The adopted revenue requirement reflects this change.

B. FERC Account 814 – Engineering and Supervision

SoCalGas forecast a large increase in Account 814 – Engineering and Supervision which was explained in terms of significant changes due to the Cushion Gas Project adding 14 billion cubic feet of inventory capacity, a new geologic model to manage and diagnose the storage fields[223] as well as Pipeline

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[221] Ex. 301, Chapter 6, and Sempra opening litigation brief, p. 116.

[222] Sempra opening litigation brief, p. 245.

[223] Ex. 108, p. 4.

Integrity Management and other changes identified for planning and management control.[224] SoCalGas also argued that an average, as used by ORA, ignored the upward trend in costs in the most recent years. ORA did make an addition to the average to reflect Pipeline Integrity[225] but we are not convinced that the average, which ignores both the recorded trend and all specific detailed changes, is more appropriate than SoCalGas' estimate. We will adopt SoCalGas' 2004 estimate of $6.647 million.

Local 483 raised objections to the level of supervision and crew sizes at the storage facilities. It argues that all stations – compressor and storage – should have two-person crews at all times for both safety and site security reasons. Specifically, Local 483 argues that an increase of 14 full-time equivalent positions would provide better protection for terror threats and emergencies including fires and leaks.[226]

SoCalGas responded that it has increased its expert security and has added lights, cameras, etc., to enhance security. We do not think that Local 483's members can be expected to provide any enhancement to security. Local 483 personnel have not been shown to be trained as security experts. We accept SoCalGas' assertion that the new automatic monitoring systems can accurately and instantly detect and report leaks or equipment failures and new security measures will detect intrusions.

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[224] Ex. 6, pp. 15-19 and Ex. 101, p. 12.

[225] Ex. 301, Table 6-2.

[226] Ex. 850, Recommendation 3 on un-numbered p. 3.

SoCalGas pointed out that some positions were eliminated because two storage fields have been closed and because of increased automation and computerization of compressor and storage field operations.[227] We have seen no evidence that SoCalGas has been operating in an unsafe manner and that automation has had any adverse effects. We will not adopt any adjustment to increase labor at storage fields and compressor stations.

Local 483 also argued that SoCalGas violated its contracting policies. We do not find that Local 483 supported its assertion that SoCalGas unreasonably violates its own contracting policies and practices.[228]

Local 483 proposed that all penalties or fines that may be imposed by governmental agencies for spills of hazardous materials or other violations of rules, procedures and regulations should not be recoverable through rates. Local 483 did not assert or identify any charges as embedded in the test year estimates.[229] Where the circumstance arises, we will resolve this issue on a case-by-case basis.

C. FERC Account 824 – Other Expenses

ORA used a three-year trend and opposed as inadequately supported the requests for enhanced security, change in capitalization policy and additional environmental monitoring costs. But we cannot find an average as adequate to address known changes. ORA's testimony did not describe what would have been adequate to document the costs for these increased activities. TURN

[227] Ex. 108, pp. 6-9.

[228] Ex. 850, Recommendations 7 and 8 on un-numbered p. 3.

[229] Ex. 850, Recommendations 2, 5 & 6 on un-numbered pp. 2 and 3.

argued that one cost component, increased security, was already in effect even though recorded costs were declining.[230] We will adopt the applicant's estimates.

D. Other Gas Storage Adjustments

Several accounts, 825 – Storage Wells Royalties, 832 – Maintenance of Reservoirs and Wells, and 835 – Maintenance of Measurement & Regulation Station Equipment were changed in SoCalGas' errata, Ex. 5E with the result that the figures varied from those reviewed by ORA. Absent specific proposals from other parties, we adopt these and any other updates in the SoCalGas end-of-litigation position.

E. SoCal Account 832 – Maintenance of Reservoirs and Wells

TURN proposed a disallowance of 50% of the increase for maintenance of wells and reservoirs and argued that SoCalGas did not adequately account for the 2001 increase in costs. The rate of this increase is very high: 23% over 2001 (and 2001 costs were already high), with overruns in the well rework activity at Aliso Canyon.[231] Although we have generally been reluctant to accept recommendations for blanket reductions without specific supporting calculations, we made an exception here. SoCalGas did not brief this issue, and we accept the arguments made by TURN that the proposed increase is too high. We will adopt TURN's adjustment for $0.252 million in Test Year 2004.

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[230] TURN opening litigation brief, p. 54.

[231] TURN opening litigation brief, pp. 54-56.

F. O&M – Gas Transmission

There are six accounts where ORA litigated significant issues that we resolve in this decision. SoCalGas provided an overview of the gas transmission functions and an explanation of the costs recorded in each account. In addition the applicant explained how the activities and costs changed from the base year to the test year.[232] This was consistent with the general SoCalGas and SDG&E method of forecasting previously discussed. Except for those items and Accounts 855 and 859 below, we otherwise adopt as reasonable SoCalGas' end-of-litigation position for gas transmission O&M expenses for Test Year 2004.

1. Three- Year Average Method

ORA accepted the forecast method, explanations and results for eight accounts (plus changes to two others discussed below) where the applicant's estimates were lower than an estimate based on an average of those accounts. For the four others, ORA proposed a three-year average with only two specific factor adjustments for Pipeline Integrity and capitalization.[233] ORA's testimony again cited only a lack of a detailed analysis of the estimate by SoCalGas. The original testimony (Ex. 4) was not voluminous (20 pages) but did provide sufficient descriptions of programs and changes. In rebuttal Ex. 94, SoCalGas provided further explanations and showed that it had answered detailed data requests by ORA. Although we have expressed concern over the relatively large amount of rebuttal, and the primary obligation for SoCalGas (and SDG&E) is to

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[232] Ex. 4, pp. MDM-7 through MDM-19.

[233] Sempra opening litigation brief, p. 109.

"make the case" in the direct or initial showing, ORA did not explain to us why we cannot rely on the estimates as proposed by SoCalGas.

The use of an average mutes trends up or down, assuming that a trend would even be relevant. To be relevant, it would be necessary to show that activities were essentially constant in nature and the cause of the trend, such as the trend in customer growth, was stable and predictable. We are not offered any reasonable justification why we should use an average method of forecasting instead of a forecast that is based upon known or expected changes to the base year.

For Accounts 851, 856, 860 and 865, we will rely on the explanations and justifications offered by the applicant and we will not default to a three-year average.

2. Other Gas Transmission Adjustments

Account 850 – Engineering and Supervision and Account 859 - Other Expense were changed in SoCalGas' errata, Ex. 4E and Ex. 6E with the result that the figures varied from those reviewed by ORA. Absent specific proposals from other parties, these up-dates in the end-of-litigation position for SoCalGas are adopted.

3. Account 855 – Electric Fuel

SoCalGas forecasted $1.345 million in expense to operate the Sylmar compressor station and it conceded that these costs could be recovered in the BCAP where the Commission addresses gas commodity acquisition and other related costs. But, SoCalGas pointed out these are new costs not already recoverable through prior orders of the Commission and that a decision in the next BCAP may lag this decision and certainly lags the January 1, 2004 effective date of the memorandum account authorized by D.03-12-053 in this proceeding.[234]

TURN recommended that we defer the issue to the BCAP. We are mindful that if the estimate is in error, SoCalGas would, all other things being constant, over- or undercollect by some amount, but there is no reason to deny any opportunity to recover 2004 operating expenses for this station. ORA accepted the forecast and TURN did not dispute the forecast, only the timing of recovery.

We will authorize SoCalGas to recover in rates the forecast $1.345 million in expense in this proceeding. To delay authority to the BCAP would be to deny recovery of costs prior to that decision even though the station now operates electrically.

4. SoCalGas Account 857

TURN proposed disallowing 50% of the costs for maintaining additional equipment at Kramer Junction and North Needles, arguing that SoCalGas will not hire any new personnel to monitor this equipment.[235] In its Reply, SoCalGas argued that even if existing employees perform the work with overtime the expense should be recoverable. Oddly, this is a situation where SoCalGas is criticized for not proposing to hire additional employees, only overtime by existing employees would provide the labor to perform the tasks. We will not make the adjustment.

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[234] Sempra opening litigation brief, p. 111.

[235] TURN opening litigation brief, p. 50.

5. SoCal Gas Account 859-- Other Expenses

TURN expressed a concern that the applicant was over-compensating for inflation on $495,000 in Department of Transportation fees and operating permit costs and proposed that the costs should not be subject to non-labor inflation.[236] SoCalGas responded in rebuttal that the fees are mileage based and the fee rate has been rising at the rate of inflation. SoCalGas stated that other costs for waste disposal, etc., will increase its costs too.[237] We will accept SoCalGas' estimates; it does not appear that the cost estimates are over-adjusted for inflation.

6. Local 843 Issues

Local 843 made its first formal appearance before the Commission as an interested party in this proceeding. Admitted into the record are 13 exhibits (a total of 40 were identified but 27 were not received into evidence), including Ex. 850, which was four pages of prepared direct testimony by the president of Local 483, that contained 11 specific recommendations. Local 483 did not file briefs. In its brief, SoCalGas argued only that if we adopted the recommendations, we must include funding in the revenue requirement.[238] We lack any summation by Local 483 on its final recommendations.

We will briefly review the recommendations of Local 483.[239]

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[236] Ex. 501, p. 3.

[237] Ex. 131, pp. MDM-3 and MDM-4.

[238] Sempra opening brief, p. 112, and p. 120.

[239] All discussion is based upon the positions of Local 483 in Ex. 850.

1. Local 483 recommended that the incentive compensation programs should not be funded. We addressed this issue in depth elsewhere, and required a 50-50 split between shareholders and ratepayers.

2. Local 483 proposes that all hazardous spills should be reported to the Commission's staff[240] and cleanup costs should not be borne by customers. It is not our practice to allow for amortizing past fines or anticipated fines. We do, however take steps to ensure that utilities remediated hazardous spills. We are not persuaded tht there is a need to establish new reporting requirements.

3. Local 483 argues that the addition of 14 employees. (two at each compressor station and storage field at all times) could be a terrorist deterrent. We addressed this previously and do not adopt it. Local 483 also suggested that additional workers would reduce the backlog on work orders. The specific accounts are addressed elsewhere and we adopt an appropriate labor estimate based on the record in the specific discussion of each account.

4. Local 483 argued for one more specialist position for cathodic protection maintenance and inspection. We adopt the labor estimate elsewhere that adequately addresses cathodic protection equipment inspection and maintenance.

5. Local 483 expressed its concerns about other fines and assessments that may have occurred that should not be recovered in rates. As stated above, it is not our practice to allow for recovery of fines.

6. Local 483 asked for an independent study of SoCalGas' contracting practices. We rely upon ORA to perform an exhaustive review of SoCalGas'

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[240] The Consumer Protection and Safety Division has a Safety and Reliability Branch.

business practices as a part of its review of test year forecasts. Implicit in that is the expectation that ORA can identify instances where contracting may or may not be an appropriate alternative. Encourage ORA to comprehensively review SoCalGas' contracting practices for the next GRC.

7. Local 483 proposed that management and non-represented employees who smoke be required to make higher employee contributions to medical plan costs. While this proposal seems logical, we lack the evidence necessary to conlude that such a requirement is appropriate.

8. Local 483 suggested that more effective management of storage fields and compressor stations could achieve savings to the ratepayers at SoCalGas. For example, Dennis Zukowski testified that the La Goleta Storage Field is known to be the most cost effective facility for putting gas into the ground or for extracting it. Nonetheless, he states that the company often uses other fields and stations first – at great expense to ratepayers. Local 483 recommends that the company prepare a formal utilization plan, for the use of the compressor stations and storage fields, designed to maximize savings to ratepayers. It seems logical and appropriate that SoCalGas would both understand the most cost-effective way to utilize its facilities and plan its activities to do so. SoCalGas appears not to have directly responded to this proposal in this proceeding. We will direct SoCalGas to report, in its upcoming BCAP, on its current efforts to plan for the efficient utilization of its storage and compression facilities. If the company currently prepares and implements a utilization plan, then shall submit its latest plan as part of its BCAP filing. If it does not, the company should submit a proposal for submitting such a plan, and explain to the Commission why it should not be required to do so.

9. Local 483 recommended that SoCalGas should obtain building and safety permits when it "makes new installations or additions to buildings, electrical systems or anything else unrelated to gas piping for Transmission and Storage that would otherwise require a building permit and inspection."[241] Under cross-examination SoCalGas' witness responded, "I think that all electrical installations need to be done to code to protect the safety and reliability. There is a precedent in the state court of appeals that says that utilities are not required to seek local permits for infrastructure required to actually move the molecules or the electrons. And based on that, there are times when we do not get permits."[242] It is our intention that in adopting Test Year 2004 revenue requirements that SoCalGas (and SDG&E) will operate their system safely and will, at all times, ensure that the proper design, construction and maintenance practices are used, their systems will comport with all applicable Commission General Orders, and that all necessary permitting shall be obtained.

XXIII. Gas Distribution Operations

The test year forecast for gas distribution operating expenses was developed in a manner consistent with the general method discussed previously. Recorded 2001 costs were adjusted for changes based either on a trend or specific changes.[243] For each account the company provided a description of the primary tasks and any specific changes and the reasons for those changes. We find that SoCalGas provided sufficient information to forecast a reasonable test year

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[241] Ex. 851, un-numbered p. 4, paragraph 11.

[242] Transcript, p. 1,372, lines 13-19.

[243] Ex. 3, p. FA-14 ff.

estimate, with a few exceptions. ORA did not take exception to many of Applicants' test year estimates for gas distribution O&M expenses; we will adopt the SoCalGas and SDG&E end-of-litigation estimates for the unopposed accounts and focus our attention on resolving any objections raised by ORA and other parties.

A. SoCalGas Account 870.0: Operation Supervision and Engineering - Distribution

ORA proposed 10 separate adjustments for a total $703,000, ranging in size from $329,000 to $4,000.[244]

SoCalGas proposed to add two positions related to Computer Aided Drafting (CAD). ORA would eliminate $32,000 associated with these positions and argued that they are excessive because of ORA's other recommendations to reduce capital expenditures. We will not make this adjustment; it lacks a stand-alone link to show that these positions are directly proportional to the capital construction.

ORA proposed disallowance of $108,000 for a new maintenance and inspection system, part of a federally mandated Pipeline Integrity Program, again assuming a direct correlation to capital projects. This adjustment is composed of two fractional adjustments that do not eliminate entire positions; ORA suggests that we should eliminate 69% of five positions because of its proposed capital expense reduction and 23% of two support positions as a generic "Support Labor" adjustment. ORA fails to show that these employees

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[244] ORA opening litigation brief, pp. 17 – 22, and Ex. 149, p. 61.

would not be useful and does not provide a persuasive rationale for reducing fractions of employees. We decline to make this adjustment.

B. SoCalGas Accounts 870.5 & 870.7: Operation Supervision and Engineering

ORA argued that based on its proposed reductions to new capital expenditures, discussed previously, the forecast levels of O&M expenses were commensurately too high.[245] We will not make this adjustment because ORA has not established a link between new capital expenditures and ongoing O&M for the entire system.

C. SoCalGas Account 878: Meter and House Regulator Expense

ORA proposed a reduction equivalent to one Meter Records Clerk linked to its recommendation to reduce the planned meter changes.[246] We have rejected the recommendation to reduce the rate of replacement of meters and we will therefore decline to make this adjustment too.

D. SoCalGas Account 879 – Customer Installation Expense

1. Meter Replacements

While the cost of the replacement meters themselves is capitalized, the cost of installing them (which exceeds the cost of the replacement meters) is expensed and accounted for in Account 879. As discussed in the rate base section on Measurement Equipment, starting in 2004 SoCalGas will replace almost all tin

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[245] Ex. 301, Tables 8-5 and 8-6.

[246] See the SoCalGas capital expenditure discussion on Measurement Equipment.

meters[247] and all meters manufactured by Rockwell Corporation purchased by SoCalGas between 1980 and 1993. ORA proposed a disallowance of $6.681 million.[248] As already discussed, we cannot accept ORA's method of estimation because we only know that these meters are poor meters and we cannot predict which ones are the next to fail, so we must promptly replace them all.

2. Supervision

ORA proposed a reduction to the number of supervisors, at a proposed savings of $0.862 million, based on its proposed reduction to the level of work to be performed, and a corresponding reduction in labor expenses. It accepted the estimate of "customer-generated" field service requests compared to "company-generated" requests.[249] It argues these were discretionary levels of work. We disagree.

3. Seismic Valve Inspections

SoCalGas sought to recover in Test Year 2004 (and onward) $0.504 million to inspect earthquake shut-off valves (also called seismic valves). There are 105,000 customers with these valves.[250] ORA opposed recovery and cited

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[247] SoCalGas has already replaced all 18,000 tin meters located under structures in its service territory (Ex. 7, p. 32). The proposal here would provide for replacement over five years almost all remaining tin meters (500,000 of the remaining 542,000 tin meters).

[248] Ex. 149, SoCalGas Joint Comparisons Exhibit, p. 71. Sempra opening litigation brief uses $6.675 million, at p. 134 and ORA uses $6.682 million, at p. 66 of its opening litigation brief.

[249] See Ex. 301, 301-E and 301-EE, at pp. 9-6 through 9-10.

[250] Ex. 7, p. JPP-35 and Ex. 97, pp. JPP-31 through JPP-33. Rebuttal is nearly three times the length of the original request.

D.01-11-068, dated November 29, 2001, in A.00-07-040. In that proceeding, the Commission agreed with SoCalGas' assertion that it would be unfair to change the terms of the agreement[251] but it also found that it would be unfair to charge everyone else (core customers) to inspect these valves.[252] SoCalGas mischaracterized the scope of A.00-07-040 in Ex. 97 at page JPP-22 where it claimed "That decision involved the initial inspection of a valve after its initial installation. The activity in this case is different; it is the subsequent routine periodic inspections … ." This is simply not the case; nothing in the language in D.01-11-068 limits the scope to initial inspections. Nor did SoCalGas offer any proof that the inspections are in some fashion a new inspection not within the scope of A.00-07-040. SoCalGas argued a position that it has already lost and it is rearguing in the wrong forum.

We will not include the $0.504 million in base rates for seismic/earthquake valve inspections.

4. Maturing Workforce

We note elsewhere that we reject SoCalGas' "maturing work force" argument, and so we will reduce the forecast related to employee growth as shown in SoCalGas' testimony.

5. ORA's Spreadsheets and Testimony

The SoCalGas Joint Comparison exhibit ascribes a $0.797 million difference as "an inconsistency between ORA's RO (Results of Operations) model and testimony. We will rely on SoCalGas' spreadsheets.

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[251] D.01-11-068, mimeo., p. 6 and Finding 11.

[252] D.01-11-068, mimeo., p. 7 and Finding 12.

E. Fumigation Costs (Within Account 879)

In October 2002, a new Department of Transportation (DOT) regulation terminated the fumigation contractor's authorization to turn-off/turn-on gas meter service before and after performing tented fumigation jobs.[253] SoCalGas and SDG&E have held that only utility employees are qualified to perform gas meter turn-off/turn-on services in their service territories. They sought to recover the costs of the turn-off/turn-on of gas meter service during fumigation through general rates.[254] The expense would be allocated among rate classes in the next BCAP. The Utilities argued that turning service off and on is something the utility should perform and it is safety related. They cited § 328, (b), which states "no customer should have to pay separate fees for utilizing services that protect public or customer safety."[255]

TURN's position was that the utilities could have "but chose not to" train fumigator employees to perform the work, and that the utilities apparently sensed a "growth opportunity."[256] TURN argued that the turn-off/turn-on of gas service during fumigations is not a type of basic gas service defined by § 328 because the fumigation companies are not utility customers and tent fumigations are not utility services.[257] TURN saw the roll-in of these costs as subsidizing the fumigation industry and recommended that the utilities charge the pest control

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[253] Code of Federal Regulations Title 49, Part 192, Subpart N-Operator Qualifications.

[254] Sempra reply brief, pp. 37-38.

[255] Code § 328(b).

[256] TURN reply brief, p. 12.

[257] TURN Reply Brief, p. 13.

company directly.[258] TURN compared fumigation turn-off/turn-on with wrap and strap services on water heaters and restoring service on earthquake valves when the valve is triggered by an isolated event.[259]

ORA did not take issue with having the utilities perform the service and the roll-in of costs to rate base. ORA accepted SoCalGas and SDG&E's test year estimate of $3.173 million including both the number of orders and costs. It proposed a one-way balancing account for fumigation turn-offs/turn-on.[260] Ratepayers would be refunded any unused funds, and any cost incurred over the maximum allowable would not be recovered from ratepayers. ORA argued for this accounting mechanism because SoCalGas has no experience with this service.[261] There is not a sufficient reason to impose a one-way balancing account capping recovery if the estimate is too low yet require a refund if the estimate is too high. Nor do we want the utilities to refuse or discourage safe fumigation services because the number of calls exhausts a one-way balancing account limit. SoCalGas and SDG&E were presumably prepared to respond to all fumigation calls for a fixed estimate in rates and we are prepared to authorize that estimate for Test Year 2004 with the expectation that they will respond to all requests regardless of the forecast.

We consider the turn-off/turn-on of gas service in conjunction with fumigation to be a safety issue and therefore, § 328 is applicable. If an explosion

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[258] TURN opening brief, p. 62.

[259] TURN opening brief, p. 63.

[260] ORA opening brief, p. 73.

[261] *Id.*

were to occur while the fumigation is being performed, it impacts the safety of all adjacent customers; therefore, public safety is involved. On May 8, 2003, the Commission approved Resolution G-3344, which allowed SoCalGas and SDG&E to temporarily apply Z-Factor treatment to recover the cost of providing this service in its next PBR filing. The issue was to be resolved finally in this proceeding. In Resolution G-3344, we found that charging a separate fee to fumigators or customers would provide an inappropriate incentive for them to perform the turn-off/turn-on service themselves.[262]

We disagree with TURN's recommendation to charge the fumigator for this service, as it might compel the fumigation companies to bypass the utilities and perform the function themselves, creating a safety issue. We reject TURN's argument that the utilities see the performance of this service as a "growth opportunity." We agree with SoCalGas and SDG&E. This is not a service ratepayers will abuse if there is no extra charge – it is not likely that customers will have their homes fumigated more often if there is no extra charge for the turnoff/turn-on service.

F. SoCalGas and SDG&E CO Testing – Costs in Account 879

SoCalGas and SDG&E have agreed with TURN and UCAN to record in a memorandum account the costs for 100% of CO testing weatherized homes.[263] They disagreed on the number of homes to be tested for SoCalGas, TURN estimated 40,000 not 45,000. As a result, TURN proposed a 12% decrease

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[262] Resolution G-3344, Finding of Fact 9.

[263] TURN opening litigation brief, p. 61.

($0.150 million). We decline to make this adjustment. We will authorize creation of the memorandum account, and do not impose a limit (beyond testing only the number of homes that need to be tested). The memorandum account will effectively refund any under spending if SoCalGas does not inspect 45,000 homes.

G. SoCalGas Account 880.3: Other Expenses – Distribution Field

SoCalGas and ORA agreed to a $0.194 million reduction in Dispatch Operations as shown in the Joint Comparison Exhibit and we therefore adopt the Test Year 2004 estimate of $6.916 million.[264] TURN recommended $6.829 million,[265] a $0.280 million reduction, based on ORA's declining forecast of field service work orders. We will use the ORA adjustment of $0.194 million based on the SoCalGas and ORA agreement.

H. SoCalGas Account 880.4: Other Expenses – Distribution Field

ORA proposed several reductions for a total of $0. 769 million,[266] including $0.243 million for the maturing work force phenomena.

ORA also proposed to disallow $0.280 million (37%) of SoCalGas' "off production time" and linked its recommendation to its proposed reductions in Other Capital Replacement costs.[267] SoCalGas' rebuttal denies the costs are

264 Ex. 149, SoCalGas Joint Comparison Exhibit, p. 63.

265 January 19, 2004 Revised TURN opening litigation brief, p. 32.

266 Ex. 149, SoCalGas Joint Comparison Exhibit, p. 63. (The recommendations follow this exhibit and are presently differently in ORA's opening litigation brief.)

267 Ex. 301, p. 8-27.

related to capital costs and pointed out that its capital related costs are in Account 903. Even though we have adopted ORA's capital adjustment, we accept SoCalGas' explanation that the costs in this account are not associated with Other Capital Replacement costs and we therefore decline to make this adjustment.

Finally, ORA proposed to disallow $0.246 million for technical and field administrative support for pipeline records. This represents disallowing one third of the new district clerical support request ($81,000), one third of the new technical office supervisors request ($41,000) and one third of the distribution field work for posting facilities to mapping records ($124,000). These adjustments are dependent on the adoption of ORA's lower forecast for capital expenditures. Although we adopt two of ORA adjustments, we also adopt much of SoCalGas' request representing the vast majority of total capital expenditures. We will not adopt a fractional portion here, we do not have any evidence there is a strong linear relationship between the support costs and the capital cost. We will not adopt the $0.243 million disallowance for maturing work force.

I. SoCalGas Account 880.5 – Safety & Emergency Services

SoCalGas requests $4.187 million in Test Year 2004 for Safety and Emergency Services, which is described as training, safety procedure observations and field consultation. SoCalGas describes three "key operational drivers," (1) the maturing work force changes and additional employees, (2) additional support on ergonomic and chemical hazards and anticipated new OSHA guidelines, and (3) upgrades to the mobile command unit.[268] ORA's

[268] Ex. 8, p. RAK-71.

objection is that 2002 adjusted recorded costs are 14.4% lower than the estimate and recommends a $0.603 million reduction.[269] First, the SoCalGas estimate is designed to reflect the expected scope of work and adjusting to recorded levels by ORA does not address scope. Second, 2002 is not the base year, and it is only a single point of data, so we reject ORA's method of adjustment.

J. SoCalGas Account 887 – Distribution Main Maintenance

ORA proposed a total of 11 adjustments for $0.848 million out of SoCalGas' Test Year 2004 request for $18.231 million. As discussed below, we adopt an estimate of $18.114 million for Test Year 2004.

For the Special Leak Survey ORA proposed to disallow 11%, $21,000 of $195,000, $31,000 of $285,000 for Leak repairs (in miles), and $191,000 of $1.7 million for the Leak Repair backlog. ORA relied on a seven-year average, which it also used for capital expenditures for Routine Main Replacement. SoCalGas points out that the maintenance is for existing systems and includes, for example, the pre-World War II steel pipe.[270] We rejected that approach for capital expenditures and we do so again here. But, again, we put SoCalGas on notice that we expect it to perform at this level and the level of actual performance will be considered in the next proceeding when assessing forecast credibility.

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[269] ORA opening litigation brief, p. 125, and Ex. 301-E, p. 12-9.

[270] Sempra opening litigation brief, p. 48 (electronic copy).

ORA proposed to disallow 47%, $205,000 of the Franchise Main Maintenance expense, again linking expense to capital expenditures.[271] SoCalGas argues this expense is driven by changes in the system as a result of local government and CalTrans. We adopted ORA's position on capital expenditures, but the maintenance expense applies to the entire existing system, not the current capital expenditures. We will adopt SoCalGas' estimate of $436,000.

There are four cathodic protection-related adjustments proposed by ORA for a total of $205,000 all of which are a 41% reduction described as "the direct relationship with Cathodic protection capital activities"[272] and with which SoCalGas disagreed,[273] and argued the expense related to the total existing system not the new construction forecasts for the test year. We agree with SoCalGas that this linkage is wrong, and, as with so many expenses, we are concerned whether SoCalGas will actually perform as much work as they forecast. We expect adequate proof in the next proceeding of the level of work actually performed in the test period. We adopt SoCalGas' Test Year estimates of $0.516 million for cathodic protection-related expense items.

Finally, we reject ORA's proposal to reduce expenses for "rechecks" of leaks; ORA proposed an 11% reduction to expenses based on its position regarding capital expenditures which we find to be without merit. We adopt the SoCalGas estimate for Test Year 2004 of $0.055 million.

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[271] Ex. 301, p. 8-30.

[272] Ex. 301, pp. 8-31 – 8-32.

[273] Sempra opening litigation brief, pp. 49-51.

TURN recommended denial of $1.743 million, the increase requested by SoCalGas to reduce the backlog in gas main leaks, defining the adjustment as "deferred maintenance." The premise of its calculation is that SoCalGas was authorized $16 million in its last rate case, but has spent an average of $14.3 million. During this time, the backlog grew from 4,709 to 8,246. TURN pointed out that SoCalGas spent less than $15 million in every intervening year until now.

In rebuttal to this, SoCalGas argued "the leaks that were in the backlog in 1997 are not the same leaks that reside in the backlog today," which means there are more new leaks all the time. We do not disagree that the current backlog consists of different leaks. But SoCalGas did not refute the fact that it consistently under-spent on repairs compared to the allowance in rates.[274] We are glad they are not the same leaks, but still the leak backlog count grew while the spending was below previously authorized levels. SoCalGas has proposed reducing the backlog. Even if its argument is credible that leaks grew because the pipes are older and more prone to leaks, we expect the backlog to decline to the proposed level if the utility fully spends the authorized amounts

K. SoCalGas Account 892 – Distribution Service Maintenance

ORA proposed a total of seven adjustments for $1.162 million out of SoCalGas' Test Year 2004 request for $21.224 million. As discussed below, we adopt an estimate of $20.807 million for Test Year 2004.

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[274] Sempra opening litigation brief, p. 59.

We do adopt a disallowance of $0.417 million related to maturing work force costs.

Consistent with Account 887 – Distribution Main Maintenance, we reject ORA's recommendations that link maintenance expense to capital expenditures. As SoCalGas pointed out,[275] there is an inverse relationship if the funding is reduced for the maintenance of the curb meter boxes to inspect, rebuild, and repaint curb meter box sets along coastal areas that have been experiencing high levels of corrosion, then the need for future capital expenditures will rise.[276] Thus, we reject also the proposal to reduce the budgets for pre-charged fillings (small, general use items), service alterations and unscheduled meter set assembly replacements and growth related expenses.

SoCalGas asked for $78,000 for incremental leak repairs and again we stress that in granting the forecast, placing these costs in rates, we expect SoCalGas to demonstrate a level of performance commensurate with the funding.

L. SoCalGas Account 893.2 – Tin Meter Testing

TURN proposed that if SoCalGas is authorized to replace tin meters because they are considered a leak hazard, that the company should not test the meter for accuracy, with the intention of possible rebilling of customers. TURN estimates that this would save $0.237 million.[277] SoCalGas' witness

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[275] Sempra opening litigation brief, pp. 53 – 54.

[276] Sempra opening litigation brief, pp. 51 – 52.

[277] TURN opening litigation brief, pp. 38-39, citing Transcript pp. 1,117 and 1,118. (Revised Section 3, dated January 29, 2004.)

acknowledged the primary concern was safety due to leaks not billing inaccuracy. In its Reply Brief, SoCalGas requested that if we adopted the proposal, we should clearly relieve "SoCalGas of any requirement or expectation within the Commission's jurisdiction that SoCalGas actually perform such tests."[278] We will adopt TURN's recommendation to reduce Account 893.2 by $0.237 million and SoCalGas need not retest tin meters that are removed as a part of the systematic replacement of tin meters to reduce the hazard of leaks.

M. SoCalGas - Information Technology Expense – Accounts 880, 903, & 923

ORA recommended an adjustment of $0.936 million that would result in Non-Labor adjustments of: (1) $165,600 to FERC Account 880; (2) $264,000 to FERC Account 903; and (3) $506,400 to FERC Account 923. These are the sum of 25 items that are characterized as one-time expenses; that is ORA agreed these costs may occur in 2004, but it believes they will not reoccur during a presumed five-year span before the next rate proceeding for SoCalGas.[279] ORA otherwise accepted the expense forecasts for these accounts. SoCalGas requested $57.563 million for Test Year 2004. SoCalGas responded that while they may be non-recurring specific items, there are different non-recurring items every year in addition to the continuing standard items. Thus, if one year's one-time expenses are removed from the forecast there is no provision for the next year's one-time expenses.[280]

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[278] Sempra Reply Brief, p. 44.

[279] Ex. 301, pp. 22-1 – 22-5, and footnote 1, p. 22-2.

[280] Sempra opening litigation brief, p. 169 (electronic version).

ORA explained its methodology, including the fact that SoCalGas could not provide a five-year trend because of merger effects and subsequent reorganization of the Corporate Center, and because SoCalGas did not budget on an FERC account basis. ORA therefore reviewed project costs, justifications, work papers, etc., and met with company personnel.[281] We find this process to be essentially correct, in terms of understanding the basis of the request, and, as discussed elsewhere, the narrow use of trends without this analysis is not sufficient. Expenses, like capital expenditures, can be classified as recurring or as unique, and therefore they need different treatment in adopting a test year forecast. Because the rates we adopt here will remain in effect for several years, (with or without some form of attrition adjustment) we must consider whether the estimate allows for each year's atypical expenses, i.e., each year's different unique expenses.

SoCalGas will undoubtedly have different one-time expenses until its next rate case. ORA identified $0.936 million, which is about 2% of the requested $57.563 million. We will not make ORA's adjustment for one-time 2004 expenses; a 2% factor annually is a small allowance for subsequent year's one-time events.

N. SDG&E - Information Technology Expense – Accounts 588, 880, 903, 920, 921 and 935

SDG&E requested $33.578 million ($26.366 million electric and $7.211 million gas) and ORA proposed a disallowance of $0.488 million, similar to the proposed SoCalGas Information Technology disallowance for one-time expenses.

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[281] Ex. 301, pp. 22-3.

ORA proposed to disallow Non-Labor adjustments of: (1) $73,600 to FERC Account 588; (2) $3,200 to FERC Account 880; (3) $115,200 to FERC Account 903.D; (4) $57,600 to FERC Account 920; (5) $228,800 to FERC Account 921; and (6) $9,600 to FERC Account 935. We decline for the same reasons as discussed for SoCalGas to make this adjustment.

O. SoCalGas Account 901 - Supervision (Staff Support Services)

SoCalGas requested $3.882 million in Test Year 2004, which included an increase of $0.722 million. ORA objected to $0.442 million related to 5.4 new full-time equivalent positions and there is a further $0.007 million difference attributed to SoCalGas up-dates not included in ORA's calculations. SoCalGas cited in Ex. 7 a number of new customer service information systems that are needed to improve service and ORA's conclusion was that these new systems mean more efficient operations and therefore the increased personnel are not needed.[282] Neither the justification by SoCalGas nor the analysis by ORA are in any depth, and on the whole new systems would appear to require personnel to operate them, if the goal of the systems is to allow field work to be better planned and coordinated, so we will not disallow all positions.

P. SoCalGas Account 902 – Meter Reading Expense

SoCalGas reads about 5.44 million gas meters monthly, about 125,000 electric meters in Orange County for SDG&E, in conformance with the affiliate transaction rules. SoCalGas has moved from a full-time meter-reading

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[282] SoCalGas Joint Comparison Ex. 149, p. 72, Ex. 301, pp. 9-2 through 9-3 and Ex. 7, p. JPP-45.

workforce to a partial part-time staff. SoCalGas seeks $20.589 million for Test Year 2004, which is a $2.069 million increase.[283]

SoCalGas attributed $0.651 million of the increase to customer growth. Of the total $287,000 is the incremental cost to read the meters, and $364,000 is required to "maintain safe access to customers' meters," where the company is encountering more fences, locked gates, and more dogs. SoCalGas wants to use a global positioning system to assist with access to about 700 rural and remote area meters. From 1995 to mid-2002, there were 440 dog-bites, which account for 34% of all injuries. SoCalGas has on file 644,273 "Aggressive Dogs" and some specific procedures to deal with them. SoCalGas also attributed $0.753 million to the newest collective bargaining agreement, which requires 100 meter-readers to be full-time employees. It attributed another $0.556 million to a high turnover rate, because the position functions as an entry-level position into the company's other jobs. This leads to increased training and more field observations to monitor safety and performance.[284] ORA objected to three components, which total $0.404 million.

ORA wants to "normalize" for the five years of the presumed duration of the rate cycle. The $0.050 million for the development of global positioning technology. This project has been identified as a "one-time" expense.[285] As already discussed, in test year forecast there are atypical "one-time" events that should be dealt with separately, and there are the examples which are minor but

[283] Ex. 7, pp. JPP-48 and JPP-49.

[284] Ex. 7, pp. JPP-51 through JPP-55.

[285] Ex. 301, p. 9-24.

something similar will occur. We will not normalize a $50,000 item, first because we have not adopted a five-year rate cycle and second because we expect SoCalGas to undertake all reasonable minor items that are not forecast, while these rates are in effect.

SoCalGas argued that it has a very high turn-over rate for meter readers, attributed to two significant factors: the position is an entry-level gateway into the company so incumbents may move into better paying positions over time, and secondly, the position is part-time so that leads to turnover as people find other full-time positions outside SoCalGas. The turnover rates, not disputed by ORA, are over 70% annually. ORA objected to $0.168 million for more full-time positions that would train part-time meter readers. ORA did not quantify its objection (no assertion or analysis that there are enough trainers, for example) only that it "does not see a need,"[286] and so we will allow the funding.

[286] Ex. 301, p. 9-25.

ORA proposed a third adjustment of $0.196 million that is for group and individual incentive safety programs. ORA argued these incentives are social activities programs and should be disallowed. Consistent with our position in Account 926, we will allow the expense as a reasonable expense to engender morale and a useful tool for encouraging worker safety.

We adopt the SoCalGas Test Year 2004 request for $20.589 million.

Q. SDG&E Account 902 – Meter Reading

ORA had no adjustments to this account; UCAN on the other hand opposed SDG&E's nine new full-time equivalent positions. UCAN compared the employee database from January 2001 through June of 2003 (2.5 years) and found a slight decrease – with part-time workers replacing some full-time employees.[287] SDG&E disputed the employee count, and argued that total hours is the more relevant measure; it disagreed too with what it called a "snapshot" measurement – 2.5 years.

We have said repeatedly that the reliability of labor forecasts, and the likelihood of filling the vacant and new positions, are significant concerns to us. We will not make UCAN's adjustment for labor.

We agree with SDG&E that other costs for safety training and equipment are likely recurring costs and we will not make UCAN's adjustment.[288]

UCAN makes a further recommendation for Account 902, to reject $2.736 million for costs necessary to support interval meters. UCAN argued to do this "because SDG&E has no hourly rates or mandatory dynamic pricing

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287 UCAN opening litigation brief, pp. 136-139.

288 Sempra Reply Brief, p. 54.

programs that necessitate hourly billing or interval metering … as of September 2003, the Company has installed only 1,652 interval meters, none of which are on an hourly billing tariff."[289] SDG&E pointed out that under AB 1X-29, the Commission is obliged to support real-time meters as funded by a California Energy Commission program[290] – the issues of meter technology and real-time pricing are well beyond the scope of this proceeding – we need only decide whether SDG&E is reasonable in its efforts to support and maintain these metering systems. We will not revisit R.00-10-002, *Interruptible Load Programs* or R.02-06-006, *Advanced Metering, Dynamic Pricing and Demand Response* in this proceeding.

UCAN had a related adjustment discussed in Account 903.1, for dynamic tariff and demand reduction programs. As discussed below in Account 903.1, we decline to make that adjustment.

[289] Ex. 603, p. 12.

[290] See Rebuttal Ex. 122, EF-56 through 60 and Sempra Reply Brief, pp. 55-56.

R. SoCalGas Account 903 – Customer Records and Collection Expenses

This is a major account dealing with labor and non-labor expenses for the Customer Contact Center, branch office and authorized payment locations, customer billing, credit and collections, bill distribution, bill payment processing and meter reading supervision. The end-of-litigation request by SoCalGas was for $91.854 million in Test Year 2004.

ORA proposed a large number of adjustments, totaling $3.370 million, or 3.67%, as shown in the table below, taken from the SoCalGas Joint Comparison Exhibit.[291] The majority of the adjustments are labor related. The ORA proposal is characterized by a number of relatively small adjustments and then two large amounts totaling $0.669 million, where its final litigation position failed to reconcile internally and failed to capture the effects of SoCalGas' errata.

[291] Ex. 149, SoCalGas Joint Comparison Exhibit, pp. 74 and 75. The amounts in the ORA opening litigation brief do not track to the amounts in Ex. 149, e.g., Item 10, for call volumes, ($127,000 compared to $217,000). Other sections in the ORA brief fail to follow the Comparison Exhibit, too. This was a persistent problem throughout this brief where ORA's math and organization did not always correspond to the Comparison Exhibit and consequently we have had to make various interpretive assumptions.

Table 11

	Issue Area	
	SoCalGas Test Year 2004 Estimate	$91.854 million
1.	Call Volume – Customer Call Center	$1.161 million
2.	Multi-Lingual Services – Customer Call Center	0.257 million
3.	Maintenance Costs – Customer Call Center	0.048 million
4.	Quality Assurance – Customer Call Center	0.485 million
5.	Pay Station Technology	0.085 million
6.	Supervisor Span of Control – branch offices	0.115 million
7.	Paper Orders & Processing – customer billing	0.096 million
8.	Credit Analysis Staff	0.665 million
9.	Meter Reading	0.455 million
10.	Call Volume – customer growth	0.217 million
11.	Unadjusted Impact for Errata Ex. 7-E	0.228 million
12.	Aligning Forecasts related to fumigation	0.441 million
	TOTAL ORA Proposed Adjustments	$3.371 million
	Adopted Adjustments	
	Maintenance Costs – Customer Call Center	0.030 million
	Pay Station Technology	0.085 million
	Unadjusted Impact for Errata Ex. 7-E	Already Included
	Aligning Forecasts related to fumigation	Already Included
	Adopted Expense	**$91.739 million**

1. Call Volume (1)

ORA's largest issue with Account 903 was a proposal to disallow $1.161 million of the test year estimate due to the presumed level of customer growth and resultant service calls. By using a three-year average of calls per active meter instead of a five-year average, ORA projected 60,000 fewer calls than forecast by SoCalGas. ORA would reduce the expense by $127,000[292] below 2001

[292] Or perhaps $217,000 because the exhibits and briefs do not match.

levels instead of increasing the cost by $1,035,000 for a net difference that is $1.161 million lower than the company's request.[293]

This method eliminated two higher years, 1997 and 1998, without regard to why they were high and whether the conditions in 2004 and beyond are reflective of a longer or shorter-term trend. SoCalGas asserted ORA "clearly sacrificed consistency to find the timeframe that yielded the lowest possible forecast" because ORA used different time frames – 1999 through 2002 for Account 908, and 1997 through 2001 for Account 909.[294] We note the only way ORA could have a lower average would have been to drop 2001, the base year, which is the highest of the three included in its average.

In rebuttal, SoCalGas also included a chart that is most interesting: that as gas prices sharply rose, so did call volume. But the chart is also less than complete for the full five years, so it is not dispositive either. TURN attempted to introduce an adjustment based on 2002-recorded data that no one has been able to properly review, and is not the base year.

The critical element here is labor – a voice at the end of the phone line to assist customers, we agree with SoCalGas that there is a strong correlation between highter gas prices and increased call volumes. We therefore adopt SoCalGas' forecast.

2. Multi-Language Costs (2)

SoCalGas is expanding to seven days a week and 24 hours (24/7) for Mandarin, Cantonese, Korean, and Vietnamese language assistance in addition

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293 Ex. 301, p. 9-28.

294 Ex. 12, p. JPP-51.

to English and Spanish. ORA argued that SoCalGas relied on SDG&E experience, but forecasts 10 minutes (not SDG&E's nine) and $3.87 per minute (not SDG&E's $3.10) so the costs are higher per call. The weakness in ORA's method is it used 2001 weekend actual calls for help in Asian languages (5,153) when there was no 24/7 assistance.[295] SoCalGas strongly rebutted the adjustment, in essence arguing the difficulty of estimating the number of calls – for a growing population segment – for a service not previously offered. SoCalGas used double the number of calls than ORA. SoCalGas also disputed ORA's cost estimate, showing that after adjusting for Spanish language calls, the costs (for the reduced availability service) was $38.50 per call, similar to the 2004 estimate of $38.70 per call.[296]

In the highly diverse service territory served by SoCalGas, we would be doing the public a disservice if we cut corners on 24/7 Non-English language customer assistance. The public benefit outweighs the risk of over-budgeting for the relatively short time these rates will be in effect. We will not reduce SoCalGas' forecast, but we expect the company in the next rate proceeding to have available adequate detailed records to support the costs for this service.

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[295] ORA opening litigation brief, p. 78.

[296] Ex. 97, p. JPP-44 through JPP-50.

3. Maintenance (3)

ORA proposed to normalize a "one-time" $25,000 software site license contract to $5,000 per year. (Ex. 301, p. 9-30.) ORA also dropped a $30,000 contract that SoCalGas cancelled. We will accept this adjustment, but decline to normalize the $25,000 contract..

4. Quality Assurance and Span of Control (4 & 6)

SoCalGas created a Quality Assurance team within the Customer Call Center in 2001, and seeks to enlarge the team in the test year by three positions to a total of 6.57 full-time equivalent positions. ORA agreed with the original team's size but objected to the increase of three positions ($485,000). SoCalGas responded that even if the Commission adopted ORA's call volume forecast, two of the three positions ($399,000) should be approved.[297] We did not accept ORA's call volume forecast so we will adopt SoCalGas' full request.

ORA linked the creation of the Quality Assurance team to reducing the span of control problem because 20% to 25% of supervisor time had been "freed up" (Ex. 301, p. 9-31) and therefore ORA opposed any additional supervisor positions. SoCalGas responded that supervisors were unable to "complete the desired quality observations" and that even with the Quality Assurance team, SoCalGas was still trying to reduce subordinate to supervisor ratios of 24:1 to 20:1, still higher than their desired 12:1 or 15:1.[298] We will allow SoCalGas the

[297] Ex. 97, JPP-55 through JPP-57.

[298] Ex. 97, JPP-58.

added positions, for both Quality Assurance and to reduce the span of supervisory control ratios in the test year.

5. Pay Station Technology (5)

ORA proposed that the development and implementation of the Pay Station technology was a one-time event and proposed to "normalize" the $102,000 cost over five years. SoCalGas did not respond in its Opening Litigation brief or cite rebuttal in the comparison exhibit, so we will adopt ORA's unopposed adjustment.

UCAN proposed a further adjustment of $134,000 for cost savings as a result of installing pay station technology (in Account 910). UCAN showed no derivation of this adjustment and further did not show that any cost savings were kept by SDG&E and not reflected in the forecast costs; therefore, we will not make this adjustment.[299]

6. Paper Orders & Processing – Customer Billing (7)

In its Opening Litigation Brief, SoCalGas made this summary: "SoCalGas (Ex. 97, p. 59-60) proposed an increase of about 4.8 FTEs, or $215,000, in customer billing due to customer growth and more paper orders, but ORA proposed to allow funding of only three of those FTEs or about $142,000.[300] (Ex. 301, p. 9-34 to p. 9-35). This is a disallowance of $373,000."[301] The correct arithmetic difference

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[299] UCAN opening litigation brief, pp. 156-158.

[300] Sempra opening litigation brief cites $142,000 whereas ORA's opening litigation brief uses $119,000.

[301] Sempra opening litigation brief, p. 145 and Ex. 149, p. 74.

is $73,000, but the Comparison Exhibit lists the difference as $96,000. The ORA adjustment is based on proposed reductions to meter replacements – which we reject elsewhere, and on the difference in fumigation orders – which we reject elsewhere, so we adopt no adjustment to Account 903 for this subject.

7. Credit Analysis Staff (8)

SoCalGas proposed an increase of staff to analyze the credit risks of transactions with both customers and trading partners (for gas acquisition):

> "SoCalGas originally proposed to increase its revenue requirement for Credit Analysis personnel by $1,067,000, or 10 FTEs. ORA recommended disallowance of the total amount (Ex. 301, p. 9-36). SoCalGas has subsequently reduced its request to $777,000, which is the cost of 7 of the 10 positions that it has already filled (Ex. 97, p. 68 and SoCalGas witness Petersilia at Tr. v. 14, p. 1,176)." (Sempra Opening Litigation Brief, at p. 146.)

ORA was concerned that the costs of the credit analysis appeared to greatly exceed the levels of uncollectable revenues, and that the function should be coordinated with SDG&E; further, ORA was concerned that SDG&E was also seeking funding for a credit analysis group.[302] In extensive rebuttal, SoCalGas argued that low uncollectable amounts are an indicator of successful credit analysis but in the market environment now, "the deterioration and volatility of the financial condition of many customers and trading partners … create the need for this group" and requires continued vigilance. SoCalGas emphasized that this group is a shared service with SDG&E and is intended to be more efficient as a result. SoCalGas indicated that there are 50 trading partners for gas

[302] Ex. 301, p. 9-36.

acquisition, 18 contracted marketers, seven core aggregation entities and 1,300+ non-core customers for whom the company needs ongoing credit assessments.[303] TURN proposed a very similar adjustment.[304]

We recognize that this is a large increase, but we agree with SoCalGas' argument that these are different times, and we will adopt the SoCalGas estimate. We direct both SoCalGas and SDG&E, and ORA, to compare the credit analysis operations for these companies with other large utilities within and beyond California in the next rate proceeding.

8. Meter Reading - $0.455 million (9)

This is an adjustment where the ORA Opening Litigation Brief and testimony (Ex. 301) failed to clearly align with the Joint Comparison Exhibit, (Ex. 149). ORA proposed a disallowance of $0.455 million that is a composite of $177,000 reduction to support staff, $219,000 for instructors and training and $64,000 for an additional supervisor.[305] ORA proposed a total disallowance of $0.742 million,[306] $0.455 million to support additional Meter Reading field instructors and supervisor training and $0.287 million to support additional

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303 Ex. 97, p. JPP-62 and JPP-63.

304 Ex. 501, pp. 18-19.

305 Ex. 149, SoCalGas Joint Comparison Exhibit, p. 75, Issue 9.

306 "Meter Reading Supervision expenses are the management costs associated with the Meter Reading expenses. SoCalGas is requesting an increase of $1,727,000 for costs associated with meter reading supervision. ORA is recommending an increase of $985,000 which is $742,000 less than SoCalGas' request." (ORA opening litigation brief, p. 84.)

Meter Reading field instructors and supervisor training.[307] ($0.455 million + $0.287 million = $0.742 million.)

ORA argued that the prior conversion of 100 positions to full-time reduces SoCalGas' training needs, but we accept SoCalGas' assertion that there is a high turnover rate because the position is a transitional entryway into the company and because part-time employees leave for work elsewhere. SoCalGas argued the staff-to-supervisor ratio is extremely high, 43:1, which would justify an additional supervisor. SoCalGas also argued that the supervisor is for employees that are in Account 902 that were accepted by ORA.[308]

SoCalGas has carried its burden of proof on this point, and will not make the above adjustments.

9. Call Volume Related Adjustments Customer Growth – Communications Expense (10)

ORA argued in conjunction with its call volume adjustment above that it correctly used the three-year average of calls (1999 to 2001 instead of 1997 to 2001) to capture productivity from e-mail and the "interactive voice response" system. The excluded earlier two years had a much higher rate of calls, (1.71 and 1.73 calls per meter) than the last three years (1.44, 1.40 and 1.53 per meter).[309] The ORA estimate is 60,000 fewer calls than in 2001, but we decline to make the assumption that calls will decrease below the base-year level. ORA proposed lower communications expenses, in Account 903.9, i.e., rejecting SoCalGas'

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[307] ORA opening litigation brief, p. 85.

[308] Ex. 97, pp. JPP-69 and JPP 70.

[309] Ex. 301, pp. 9-27 and 9-28.

proposed increase of $217,000.[310] We will not make this adjustment because we adopt SoCalGas' higher call rate.

10. Unadjusted Impact for Errata Ex. 7-E (11)

As discussed in Ex. 149, the SoCalGas Joint Comparison Exhibit, ORA overstated the total of Account 903 in the 2001 Base Year because it did not up-date its results of operations calculations for changes in Ex. 7-E, the errata for this account. We will rely on the SoCalGas spreadsheets that included this adjustment in the base year for this decision's adopted results of operations. This adjustment is necessary because 2001 Base Year costs – net of adjustments - are escalated to develop the Test Year 2004 estimates.

11. Fumigation Calls (12)

There is no adjustment for fumigation related calls; we will use the SoCalGas estimate as forecast in its spreadsheets and not the out-of-date ORA calculations, as reflected in the Joint Comparison Exhibit, ORA accepted SoCalGas' calculation.[311]

S. SDG&E Account 903.1 – Customer Records & Collections

For Test Year 2004, SDG&E requested $7.136 million in Account 903.1 which records the costs for a wide range of customer records related services including outreach, information, credit and collections, etc.

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[310] This is the adjustment where the Brief states the adjustment as $217,000 and Ex. 301 states it as $127,000, possibly a transposition error.

[311] Ex. 149, SoCalGas Joint Comparison Exhibit, p. 75.

There were nine differences in estimates between SDG&E and ORA, two of which SDG&E accepted and are included in its end-of-litigation position (Item 7 below). There is an unreconciled difference in ORA's spreadsheets; we will use SDG&E's end of litigation position as a starting point. The testimony in Ex. 302 and ORA's Opening Litigation Brief bear almost no resemblance to the positions as summarized in the Joint Comparison Exhibit, Ex. 150. The following table is drawn from Ex. 150, and the discussion is drawn from the exhibits.

Table 12

	Issue Area	
	SDG&E Test Year 2004 Estimate	$7.163 million
1.	Ethnic/Diverse Outreach	0.511 million
2.	General Market Expanded Outreach	1.381 million
3.	Special Needs Market Outreach	1.199 million
4.	Residential New Construction	0.800 million
5.	Call Volume – Customer Growth	0.519 million
6.	Additional Customer Service Representatives	0.336 million
	TOTAL ORA Proposed Adjustments	$4.746 million
7.	Two Agreed Changes	0.430 million
8.	Unresolved Difference in ORA Spreadsheets	0.272 million
	Adopted Adjustments	
	One-Half of Non-Labor Outreach Increase	0.255 million
	Special Service Representatives	0.104 million

1. Customer Information Expenses

In Ex. 302 (Table 9-10), ORA proposed a reduction of $3.891 million in customer information expenses. (Ex. 150, p. 85, shows Items 1 through 4 as Customer Outreach and Information Expenses, in the above table that totals $2.198 million.) ORA proposed a dramatic reduction in customer outreach and information stating "customer information expenses are discretionary and controllable. SDG&E has a duty to provide it at a reasonable cost."[312] First, we disagree that; the costs are *discretionary*; we insist that a regulated utility provide full and complete information, in an accessible form, to all customers. We do however, agree that SDG&E (and SoCalGas) must provide the service at a reasonable cost. ORA argued that the 2004 allowance should be "close to historical expenditures" and we would agree, provided ORA could demonstrate that historical services were adequate – and it provided no analysis and conclusion to that effect in Ex. 302 – and that ORA could demonstrate that the increases were for inappropriate activities or excessive cost.

ORA argued, without providing a detailed accounting, that much of the increase is "promotional and marketing" for corporate image building and goodwill; examples are funding the SDG&E's County Fair and Chinese New Year's celebration, and it argues that the Home Builders trade show is funding a corporate position in a competitive market. However there is no evidence of the latter.

We agree that corporate sponsorship of fairs, parades and other community celebrations is not a ratepayer responsibility. However, SDG&E did not state its allocation of costs for the activities that ORA proposed to disallow. We will therefore disallow one-half of SDG&E's proposed increase in costs with the intention that this captures the funding to sponsor fairs, parades and similar activities, that only wave the Sempra or SDG&E banner and name.

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[312] Ex. 302, p. 9-17.

2. Call Volume and Customer Growth

We are not persuaded by ORA's position with respect to customer growth or call volumes, and we will not adopt the proposed adjustment here. As discussed in above SoCalGas' Account 903, ORA used the same three-year average adjustment method, dropping the highest two years. ORA argues that the higher SDG&E call volume in 2000 and 2001 was "likely" due to the electricity crisis,[313] but did not produce evidence to support this assumption.

3. Special Services Staff

ORA proposed that SDG&E needs only one new full-time employee equivalent position to handle an increase in email by using SoCalGas' lower transaction time of 2.9 minutes instead of 11.183 minutes for SDG&E . This appears to be far too long a time estimate, when compared to SoCalGas; we doubt the SDG&E e-mails are 3.9 times as complicated and long. We will adopt this adjustment of $0.104 million in labor costs.[314]

ORA also proposed to disallow four positions to provide information on the CARE program and energy efficiency programs, arguing that those positions were previously funded from those programs. We disagree; first, CARE program costs are simply reallocated to non-CARE customers so there is no real difference to customers. The Energy Efficiency program budgets are intended to provide funding for actual programs – it is in the equivalent of a general rate case, like these applications, where we are best equipped to examine how well

[313] Ex. 302, p. 9-20.

[314] Ex. 302, p. 9-20; ORA proposed an allowance of $35,000 instead of an identified request by SDG&E of $139,000. (11.183 minutes / 2.9 minutes = 3.856.)

SDG&E (and SoCalGas) meet their customers service information needs, including information on specialized programs such as CARE or Energy Efficiency. We include these positions in the adopted estimate for Account 903.1 and SDG&E.

T. SDG&E Account 903.3 – Credit Collection

ORA proposed a reduction of $0.400 million[315] for credit analysis and collection for SDG&E. We discussed this joint activity already for SoCalGas (Account 903), and we again decline to make a disallowance.

ORA also proposed to disallow 2.7 of 6.7 full-time employee equivalent positions for field collectors, a reduction of $0.108 million, based on both a 1.5% growth factor – used by SDG&E – and also by considering a decrease in the forecast uncollectable rate for 2004. SDG&E proposed an uncollectable rate of 0.266%, the average of actual experience for 1997-2001, and a reduction from the last adopted 0.289% (Ex. 30, p. 107). The recorded uncollectable rate in the Base Year 2001 was 0.353%. SDG&E argued that the reduced rate goes hand-in hand with staffing of this unit. Uncollectable revenue is forecast in the Joint Comparison Exhibit to be between $2.739 million (SDG&E) or $2.411 million (ORA). We will adopt the company's estimate.

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[315] Ex. 302, ORA's and Sempra's opening litigation brief all use $440,000, but this decision is relying on the Joint Comparison Exhibit, Ex. 150 for determining the final positions. As already noted, ORA's briefs were not consistently updated from the initial exhibits, 301 and 302 to reflect the record as it evolved.

U. SDG&E Account 903.1 – UCAN's Adjustments

UCAN proposed $1.517 million in adjustments to Test Year 2004 that are distinct from ORA's recommendations discussed above. A reconciling of UCAN's arithmetic in its brief[316] is shown below.

Table 13

	Issue Area	
1.	Entertainment	$0.150 million
2.	Computer Tech. Staff	0.215 million
3.	Carbon Monoxide Testing –shifting	0.114 million
	Carbon Monoxide testing –low income	0.030 million
4.	Staff Support for Federal Accounts	0.153 million
5.	Inflation in Newspaper Advertising	0.140 million
6.	Outage Notification Staff Reduction	0.063 million
7.	Double-counted Computers	0.014 million
8.	Generic Computer Adjustment	0.051 million
	Total As Presented in Brief	$0.930 million
	Total As Listed in Brief	$0.801 million
	Adopted	
	Entertainment	$0.073 million
	Computer Tech. Staff	0.215 million

1. Entertainment Expenses – Commercial and Industrial Customers (1)

UCAN claimed that SDG&E account executives spent money to take customers to professional sporting events and even spent $2,262 on *See's Candies*. UCAN would disallow $52,000 in non-labor expense, $52,000 in labor plus a further $23,000 each in labor and non-labor, a total of $0.150 million, for what it

[316] There were some differences in the totals within UCAN's Brief.

described as the new account executives in the test year.[317] The fact that SDG&E wants to buy these items and charge them to other customers is not reasonable. We will adopt a $150,000 disallowance, for labor and non-labor costs. Although SDG&E argued the value of these "tokens" of appreciation in Ex. 122, the best appreciation for a customer who reduces electric load should be a lower bill, not a box of candy paid for by other customers.

2. Computer Tech. Staff (2)

UCAN identified the labor costs as too high for programs that should be in a "maintenance" mode rather than developmental mode: the 20/20 credit program, a rate rebate program (engendered by the governor's executive decrees during the past electricity market crisis) developing tiered rates in other electricity crisis related proceedings, and climate zone adjustments, also in a separate proceeding. ORA made no comparable adjustment.

We have been cautious in adopting adjustments that would also remove any tolerance for "new" one-time expenses and UCAN proposed only a 50% adjustment, for maintenance, where the amount allowed in rates could be diverted if necessary to new, unforeseen projects. SDG&E has significant discretion to shift available funds between all accounts, so we will adopt the 50% reduction of $0.215 million to Test Year 2004.

3. CO Testing - Demand-Side Management Related Costs (3)

UCAN also opposed SDG&E's proposal to shift $0.114 million of labor and non-labor activities from demand side management programs funded by the

[317] Ex. 602, pp. 29-30. UCAN's testimony claims this is a $146,000 disallowance but the numbers cited total $150,000.

public goods charge, to Account 901.3.[318] SDG&E disputed the adjustment. We will not shift funds to base rates from special programs that have their own accounting and ratemaking mechanisms; to do so would distort and hide their true costs. However, SDG&E correctly points out that these costs are not already recovered through the public goods charge. We will not reduce the Test Year 2004 estimate by $0.114 million.

UCAN further proposed that the forecast for the number of dwellings eligible under the low-income program for carbon monoxide testing would be closer to 6,000 and not SDG&E's forecast of 7,500. UCAN cites a declining number of homes to be treated, in D.02-12-019, and relying on SoCalGas data, about 755 of treated units are tested.[319] . We decline to adjust SDG&E's forecast.

This is a $30,000 item, we are hesitant to order such a minor reduction in an area with safety implications. We will approve this increase to reinforce the company's dedication to ensuring customer safety.

4. Support of Federal Accounts (4)

UCAN argued that SDG&E asked for additional positions in two different accounts (Account 920 as well as Account 903) to perform the same tasks; providing customer account support to federal agencies. SDG&E responded in rebuttal that the tasks are unique and therefore appropriate in the two accounts: Account 903 provides direct information and support to the federal customers, i.e., customer service as would be provided to other commercial and industrial customers, and in Account 920, the company prepares its own response to the

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[318] UCAN opening litigation brief, p. 101.

[319] Ex. 602, pp. 31-32.

possibility of "utilities privatization" from *Defense Reform Initiated Directive (DRID 49).*[320] We will not make this adjustment; UCAN's recommendation is too general and does not address the privatization response.

5. Newspaper Advertising (5)

UCAN argued that SDG&E double-counted for inflation in advertising costs, first as a general adjustment to non-labor escalation and second as a specific adjustment; but SDG&E argued it requested only 7% instead of an 11.5% national average rate of increase. UCAN actually proposed disallowing the total increase. UCAN does not show the details of how this double counting was computed. We will not make this adjustment.

6. Outage Notification Staff (6)

This adjustment was related to UCAN's proposed reduction for underground cable replacement, discussed in the rate base section of this decision. We did not adopt UCAN's reduction to the capital expenditure program and therefore we will not reduce staff that would notify customers of outages related to service interruptions.

7. Computers (7) & (8)

UCAN proposed two adjustments for computers, first a three-year replacement cycle, which we have already discussed (and we adopted a four-year cycle), and a further $14,000, intended to adjust for computers already replaced in 2002. UCAN described these computers as "part of the number of computers on which cycle replacement was based in 2004." It is unclear what this adjustment would represent; SDG&E does not appear to have responded in

[320] Ex. 122, p. EF-39.

its briefs. Regardless of whether computers are on a three, four, or five-year cycle, 2002 purchases would be replaced no later than 2007 (2002+5) which is three years after Test Year 2004, so these computers would be replaced before another full rate proceeding on base margin. The proposal is unclear and we have adopted an allowance that will replace all machines within four years. We decline to make this adjustment.

8. SDG&E Account 903.1 - Dynamic Tariff & Demand Reduction (UCAN)

UCAN proposed to disallow $0.564 million in Account 903.1 related to dynamic tariff & demand reduction programs, an adjustment that appears to be linked to the proposal to disallow in Account 902 meter reading costs associated with interval meters. UCAN argued these costs are currently recorded in a memorandum account (which means their recovery is uncertain and to be determined in some subsequent proceeding). We will not make this adjustment; we intend SDG&E to recover in its base rates the costs associated with its currently mandated metering and billing programs. SDG&E pointed out that D.02-04-060 required recovery of these costs at the utility's next base rate proceeding.[321]

V. SDG&E Account 903.5 - Net Metering (UCAN)

UCAN argued that SDG&E double-counted by requesting not only to fill two existing (2001 base year) vacancies but by also asking for an incremental allowance of $87,000 in labor and non-labor. SDG&E responded that the positions have been filled in 2002 and the further increase is due to the

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[321] Sempra opening litigation brief, p. 158.

complexity of the manual billing required for net metering. This same rebuttal applies to UCAN's reduction of per-meter costs from $99 to $50 – UCAN presents no analysis and only argued it did "not understand why net-metering is difficult." UCAN also objected to replacement labor for an employee on long-term disability. We will accept SDG&E's estimates. UCAN's adjustment for computers is already addressed generically.

W. SDG&E Account 903.5 - Hourly Billing (UCAN)

UCAN had one further proposal to disallow the costs for this account, $138,000 in labor and $15,000 in non-labor (a total of $153,000), for the analysis of hourly billing data.[322] We will not make this adjustment; SDG&E is obliged to develop and implement time of use tariffs in conjunction with installing appropriate meters and R.02-06-001.

We similarly reject all other UCAN objections to the various capital and expense proposals related to metering. Its positions as stated in the opening litigation brief are not properly identified by account and project, and appear to be based on a philosophical argument regarding metering and pricing that are beyond the scope of this proceeding and belong instead in other proceedings, including R.00-10-002, *Interruptible Load Programs* and R.02-06-001, *Advanced Metering, Dynamic Pricing and Demand Response.*

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[322] UCAN opening litigation brief, p. 13.

X. SDG&E Account 903.7 - Postage Expenses

In the Joint Comparison Exhibit,[323] a discrepancy of $174,000 between ORA's testimony and its results of operations spreadsheets is noted but in the text ORA and SDG&E indicate no disagreement exists, that ORA agrees with SDG&E. In ORA's opening litigation brief, there is a discussion of a $387,000 difference.[324] We will rely on the Joint Comparison Exhibit and reject any ORA recommendation on this account, and adopt $4.880 million the SDG&E Test Year 2004 estimate.

Y. SoCalGas Account 904 - Uncollectables

SoCalGas asked for an uncollectable[325] revenue allowance of $5.869 million based on an historical five-year average rate of 0.385% (i.e., about one-third of 1%) and for a balancing account on an as-incurred basis. ORA used a three-year rate of 0.322%, which results in a $1.107 million reduction. Considering the large increase we grant for a credit analysis in Account 903 against ORA's recommendation, we will not consider a balancing account nor will we use SoCalGas' five-year rate. We have given SoCalGas the tools in Account 904 and by using the recent average rate in Account 904 we still give the company a low hurdle to jump; we expect to see this rate continue to fall as a result, and we find $4.762 million is too high a test year allowance.

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[323] Ex. 150, p. 88.

[324] ORA opening litigation brief, p. 113; computed by comparing the cited SDG&E request for an increase of $961,000 and ORA's recommended $574,000, for a $387,000 difference. ORA's reply brief, only 15 pages long, does not address the account.

[325] The parties use both "uncollectible" and "uncollectable," sometimes within the same document. We selected "uncollectable."

TURN proposed an even lower allowance, 0.296% that is another 10% lower than ORA's recommendation. TURN argued the recorded levels for uncollectable revenues were far below SoCalGas' rate of 0.385%. TURN argued that a substantial increase in customer deposits lessens the likelihood of customer default. SoCalGas objected but did not clearly demonstrate the customer group with higher deposits was excluded when it forecast the rate of 0.385%. Again, we find that because we have fully funded credit analysis, we should expect a low rate. TURN has shown the SoCalGas rate is too high. We will adopt TURN's $1.218 million reduction, and allow $4.652 million. ($5.869 million - $1.218 million.)

Z. SoCalGas Account 908 – Customer Assistance

This is a major account dealing with very large labor and non-labor expenses for the Customer service and information for the safe and efficient use of utility service. The end-of-litigation request by SoCalGas was for $23.358 million in Test Year 2004.

ORA proposed seven adjustments, totaling $9.113 million, or 39%, as shown in the table below taken from the SoCalGas Joint Comparison Exhibit. The adjustments are split: $3.447 million in labor costs, and $5.665 million in non-labor costs with no adjustment to non-standard costs.

Table 14

	Issue Area	
	SoCalGas Test Year 2004 Estimate	$23.358 million
1.	Outreach to residential customers	2.441 million
2.	Outreach to small commercial & industrial	2.958 million
3.	Outreach to large multi-family customers	0.694 million
4.	Outreach to large commercial & industrial	1.863 million
5.	Community business partnerships	0.500 million

6.	Eservices	0.879 million
7.	Miscellaneous	0.147 million
8.	Inconsistency in ORA Testimony & R.O.	0.457 million
	TOTAL ORA Proposed Adjustments	$ 9.113 million

1. Outreach (1, 2 & 3)

ORA asserted that SoCalGas doubled its actual 2001 expenses in Account 908 in its 2004 forecast – $11.9 million to 23.8 million – and ORA argued that expenditures should be maintained at the historical (recorded) levels because it believes the "majority of the increased funding is promotional and marketing in nature and should not be funded by ratepayers."[326] ORA then failed to provide any detailed discussion, illustration or argument in support of this position, other than to point out the level of expenditures had been constant over the past four years. ORA calculated a four-year recorded average of $12.5 million and adds a further $0.881 million for ***eServices***, net of its $0.879 million disallowance.

TURN agreed with ORA and went even further in its proposals to disallow other portions of Account 908, such as eServices, that are allowed in ORA's estimate.[327] TURN also expressed concern about what it saw as a shift of program funding:

> "SoCalGas seeks $1.914 million of funding for a number of energy efficiency and demand side management programs recorded in this account. Of this amount, $1.475 million represents a funding shift from the public goods charge (in

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[326] Ex. 301, p. 9-42.

[327] TURN opening litigation brief (SoCalGas), pp. 74-76.

> SoCalGas' case, collected in the Gas Consumption Surcharge Fund (GCSF)) to base rates, and $439,000 is sought for 'improved non-energy efficiency programs delivered through the ERC (Energy Resource Center).' (Ex. 132, p. 28.) Activities currently funded through the GCSF should remain funded by the public goods charge, and the Commission should reject the proposal to shift that funding to base rates." (TURN opening litigation brief, (SoCalGas), at pp. 74-75.)

SoCalGas argued at great length about the changing demographics of its service territory and the needs of the customers, residential, small, and large, etc. The immediate questions that arose are whether the population changed in a flash, to warrant such an increase – it did not – or whether SoCalGas was previously doing an inordinately inadequate job – no one said so.

This is a case where the credibility of the increase as proposed by SoCalGas is hard to grasp, and it is the company's obligation to carry the burden of proof. We find the scope and scale of the increase unlikely to occur, and it has not been shown as necessary in the test year as proposed by SoCalGas. We specifically reject, as a part of this account, the shift in funding from the public goods charge to base rates. We agree with TURN that funding should not be shifted; costs currently recovered in the GCSF remain in the GCSF and do not move to Account 908. We expect SoCalGas (and ORA in its review of the next application) to be more specific about the programs in this account and focus on the benefits provided to customers. We adopt for Test Year 2004 the 2001 actual recorded amount, applying only standard escalation to the test year.

TURN identified $0.100 million for measurement and evaluation studies that SoCalGas sought to shift from the GCSF to base rate recovery in

Account 910.[328] We will not authorize that change either and we will ensure the revenue requirement reflects no increment for a GCSF funding switch.

2. SDG&E Fleet Service Related Adjustments (UCAN) – Account 184.2

SDG&E requests $925,000 in labor expense for 21 additional positions over and above those that were filled during the base year of 2001. SDG&E predicted that eight new positions would be filled in 2002, with the remainder in 2003-2004. However, UCAN reviewed SDG&E's staffing levels and reported that no new positions had been filled as of September 2003. In addition, despite the company's claim that filling the positions in 2002 would reduce "temporary replacement" expenses, SDG&E has shown no reduction in non-labor expenses for the reduction in "temporary replacements." On this basis, UCAN recommended rejecting the addition of the 21 staff members.

In its end-of-litigation tables, SDG&E partially accepts UCAN's recommendation, reducing the funding for new positions by 50%. SDG&E argues that it is not reasonable to believe that the company can provide adequate support for its existing fleet plus additional vehicles without adding any additional maintenance and support staff. However, SDG&E has offered no documentation that any of the positions had been filled as of September 2003. We agree with UCAN that SDG&E has not offered a satisfactory basis upon which to forecast these new positions. Thus, we will disallow an additional $476,000.

[328] TURN opening litigation brief, pp. 78-79.

3. SoCalGas and SDG&E Real Estate Software

Both SoCalGas and SDG&E have already accepted and included in revenue requirements corrected adjustments for a joint TURN and UCAN proposal to include $0.030 million for operating savings as a result of installing the *Strategen* Real Estate Software; and we accept SoCalGas and SDG&E's position that TURN and UCAN erroneously considered costs not included in this proceeding when they calculated their proposals.[329] No further adjustment is required.

AA. SoCalGas Account 909 – Customer Information/Instruction

ORA agreed with SoCalGas that the test year estimate of $2.735 million was reasonable,[330] but TURN proposed adjustments, which we will consider here. TURN argued that the 2002 actual expense level is appropriate, having provided adequate advertising, SoCalGas called the costs "informational and instructional expenses" and TURN used "advertising" and that SoCalGas failed to justify the need for any increase. The testimony on what value is provided by this information and instruction is simply not in the record; the direct testimony is two sentences and the rebuttal only criticized the withdrawn ORA alternate average forecast and criticized TURN for using 2002-recorded expenses.[331] But nothing in the record supports why we should grant any increase over the 2001

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[329] Sempra opening litigation brief, p. 184.

[330] Ex. 149, SoCalGas Joint Comparison Exhibit, p. 78.

[331] Ex. 7, p. 178 and Ex. 132, p. 30.

base year. We will hold Account 909 constant at $2.591 million, the 2001 Base Year amount, applying only the standard escalation to the test year.

XXIV. SoCalGas Administrative and General Expenses

There are eight accounts, with sub-parts, where SoCalGas and ORA have differences of $49.956 million in Test Year 2004 estimates. Except as noted in the adoption of a different forecast, SoCalGas met its burden of proof by presenting sufficient detailed testimony in support of its estimated costs.

A. SoCalGas and SDG&E Account 920 - Administrative and General Salaries

For Administrative and General Salaries, we discuss the common issues together, and at the end of this account section several proposals that relate only to SDG&E.

B. SoCalGas and SDG&E - Sarbanes-Oxley Act Costs

The issues here are similar for both SoCalGas and SDG&E, and we will discuss them jointly. There was a significant request by both SoCalGas and SDG&E to add positions in the Controller Department due to the 2002 enactment of the Sarbanes-Oxley Act. This is one of the most important new federal legislative actions in the securities law area since the 1930's and it significantly modified and expanded the reporting and control requirements affecting corporate governance, financial disclosure and the practice of public accounting. SoCalGas proposed $381,000 in Account 920 for six positions and SDG&E

proposed $298,000 in Account 920 for five positions for the expected increase in workload due to Sarbanes-Oxley Act requirements.[332]

ORA argued that prior to Sarbanes-Oxley, both utilities were required to establish and maintain adequate internal controls and procedures for tracking and reporting financial information, and in ORA's opinion, it would seem reasonable to conclude that SoCalGas and SDG&E were already analyzing and verifying their financial documents for accuracy and thoroughness before disclosure prior to the Sarbanes-Oxley Act. We disagree with this overly simple view; the Sarbanes-Oxley Act clearly added to the reporting obligations of companies like SoCalGas and SDG&E – and Sempra, its parent – which we cannot ignore. As they pointed out in testimony, and ORA acknowledged, reporting intervals have been shortened and the companies needed more staff to meet these deadlines and, for example, to provide the information required by the independent certified public accountant as a part of the audited financial statements. They argued this is all incremental work.[333]

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[332] "(F)or example, under Sarbanes-Oxley, there are analyses that are required that we simply didn't have to do previously as part of responding to requests from external auditors as they ask more questions about our calculations and our numbers before signing off on the corporate financials. So there are a lot more analyses of earnings and questions both to reply to questions from the external auditors and also to prepare others internally to respond to other requirements under Sarbanes-Oxley." (Tr., p. 373, lines 3-11.)

[333] Ex. 73, pp. PJF-6 through PJF-8. Also, Sempra opening litigation brief, pp. 187-188 and 192, 194.

We are not prepared at this time to leave corporate governance and financial reporting to chance; we will adopt the funding for the incremental positions intended to comply with the requirements of Sarbanes-Oxley, and we require an affirmative showing, in detail, in the next proceeding that illustrates the functions and workload for all financial reporting personnel after SoCalGas and SDG&E have had an opportunity to function in this new, faster, more thorough, disclosure environment. ORA may critique that experience in detail in the next rate proceeding. Better and more detailed financial review protections benefit not only shareholders but also ratepayers through reduced risk of financial irregularities and faster financial reporting.[334]

In Account 921, ORA proposed a reduction to related training; SoCalGas asked for $0.374 million and SDG&E asked for $0.577 million for training and outside consultants. We will allow the funding and expect an accounting of its utilization in the next proceeding.

1. SoCalGas and SDG&E Cost Accounting Positions for Capital Expenditures

SoCalGas asked for four new positions, senior accountants, based on the increased workload of capital expenditure increases, and by lowering the expected number of work orders handled per employee as a result of more review and control over reporting expenditures. ORA proposed to disallow three of the four positions. ORA's reason for this proposal is unclear. SDG&E

[334] By making this finding, we neither express nor imply an opinion on whether shareholders and ratepayers were previously at significant risk for financial deception by Sempra, SoCalGas, or SDG&E management, only that, consistent with the requirements of the Sarbanes-Oxley Act, we intend to provide adequate resources to ensure compliance.

also asked for new positions; one for construction accounting workload increases, another for more up-front review, another for the impact of Financial Accounting Standards Board Statement No. 143 that requires continuous monitoring of assets to identify Assets Retirement Obligations, and finally one more position for "translating the electric procurement dispatch models into a forecast of short and long-term cash flow, balancing accounts, revenue and fuel and purchased power forecasts" for a total of four positions.[335] ORA proposed to eliminate these new positions.

We will allow these positions in Test Year 2004 forecasts. The expected growth of capital expenditures the greater accounting complexities and the workload associated with electric procurement in the current electricity markets support the need for additional accounting positions.

2. SoCalGas and SDG&E Results of Operations Models

SoCalGas and SDG&E proposed two new positions, located within SoCalGas, that are intended to work on the results of operations models for both companies. SoCalGas and SDG&E indicated to ORA in a data request response that:

> "Although SoCalGas and SDG&E were not required to submit an RO model in this format,([336]) in the spirit of that requirement,

[335] Sempra opening litigation brief, p. 194.

[336] The Commission imposed a requirement on PG&E to simplify the spreadsheets before its next GRC, see D.00-07-050 dated July 20, 2000. "To maintain the integrity of the deliberative process, we believe that it is essential that Commission staff be able to understand and run PG&E's model without PG&E running the models for them. In addition, a user-friendly model will facilitate the Commission's ability to quickly calculate the revenue requirement for various decision scenarios… It is also important

Footnote continued on next page

> the utilities created a PC based spreadsheet model that is in full compliance with the six specific adjustments the model is expected to accomplish. Further, the utilities enhanced the model design beyond the requirements in the CPUC's PG&E decision to maximize efficiency in calculations and speed of use." (Response to ORA-DR-SCG-069, p. 14-11, Ex. 301 and p. 139 ORA opening litigation brief.)

SoCalGas and SDG&E argue that the work will continue to assist in the implementation of the decision in these proceedings, that the interim decision for refundable rate relief will require modeling, and ORA's recommendation to place SoCalGas and SDG&E on a traditional General Rate Case model, (which requires that the companies file a NOI 18 months before the start of the next test year) will require these positions in order for the companies to prepare spreadsheets that support a case filed as early as mid-2006 for a Test Year 2008.[337]

We have already determined in this decision that the companies must file a NOI for the next proceeding and that the next proceeding will be sooner than proposed in the applications, with a Test Year 2008. Therefore, we will adopt the estimate for these positions so that SoCalGas and SDG&E are able to proceed with their next cases and complete the implementation of this proceeding. We will also require, based on our current experience with the SoCalGas and SDG&E

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for a user-friendly model to minimize (or eliminate) the need to manually transfer data from one portion of the model to another. Said another way, the model should be as interactive as possible, with intermediate calculations being automatically forwarded to the next portion of the modeling process… " (Mimeo., p. 10-11.) (Footnote from the original quote.)

[337] Sempra opening litigation brief, p. 188.

models,[338] that the companies use these resources to continue refining and enhancing the models and in particular, that they eliminate all instances of manual data transfers within the models and for the tables and reports generated by the models to support the results of operations, rate base and other ratemaking tools. This requirement is consistent with §§ 1821 and 1822, to ensure the models and for ratemaking are accessible to the Commission and all parties.

C. SoCalGas Accounts 920 & 921 Administrative and General – Salaries and Expenses for Regional Public Affairs

SoCalGas asked for $5.738 million in test Year 2004 for Regional Public Affairs that it described as "communications activities with local jurisdictions and governmental agencies on issues related to Region distribution and transmission construction, operations and maintenance activities."[339] ORA argued that these costs are primarily lobbying in nature. Most of this communication focuses on local elected officials.[340] ORA proposed $2.880 million. These are activities that ORA argued fall under existing FERC and Commission definitions of "lobbying."[341] ORA provided no details in support of any review

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[338] There are still differences in how the SoCalGas and SDG&E spreadsheets calculate several items, such as escalation on capital expenditures that should be eliminated.

[339] Ex. 149, SoCalGas Joint Comparison Exhibit, p. 84.

[340] Ex. 301, footnote 46, p. 8-36.

[341] "This account shall include expenditures for the purpose of influencing public opinion with respect to the election or appointment of public officials, referenda, legislation, or ordinances (either with respect to the possible adoption of new referenda, legislation, or ordinances or repeal or modification of existing referenda, legislation or

Footnote continued on next page

of SoCalGas work papers, data request responses or its own analysis of specific activities by the Regional Public Affairs staff.

In rebuttal, SoCalGas lists a number of specific instances, where with local government, various fees and costs were reduced or avoided.[342] SoCalGas also described a number of activities where it claims the benefit of such outreach accrues to the ratepayers by ensuring a better flow of information between the company and local entities and avoidance of a burden on less-well-equipped operational staff who would otherwise interact with these entities. To the maximum extent possible, the ratepayers are entitled to a clear answer on what the company is expected to do in exchange for the costs included in rates.

When we look at Ex. 3, SoCalGas identifies six areas that it claims to be responsible for the $1.995 million increase from 2001 to 2004; it lists working with local communities to avoid new fees and taxes with "new cities," (not named or identified in any fashion); working with cities imposing more stringent requirements on work performed in rights of way, (again, not specifically named or identified in any fashion); increased communication with air quality

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ordinances) or approval, modification, or revocation of franchises; or for the purpose of influencing the decisions of public officials, but shall not include such expenditures which are directly related to appearances before regulatory or other governmental bodies in connection with reporting utility's existing or proposed operations." Source: FERC Uniform System of Accounts, Account 426.4, a below-the-line account for lobbying expenses.

[342] Ex. 66, beginning at p. FA-113; examples include (1) the Boston "Big Dig," $1.5 million of $6.0 million relocation costs were recovered, (2) Angora Hills off-ramp modifications, saved $0.015 million, (3) avoided $0.080 million of city required improvements in Compton, (4) recovered $2.5 million in Port of Long Beach Pier "S" relocation costs, and other un-quantified savings. SoCalGas did not provide the dates of the activities.

management districts; new water quality requirements, "navigating more stringent permitting requirements" for system upgrades (again, no new specific and more stringent requirements are cited), and the need to reach out to customers.[343]

We find nothing in the descriptions or in later rebuttal in Ex. 66 that assigns cost with specificity to any of the alleged new or changed activities. We see these as simply the current examples of the varying but ongoing activities already allowed for in the current workforce, especially given no substantial hard facts about current duties and how SoCalGas determined the cost increase for the test year.

We therefore hold the expense level constant at the 2001 base year expense of a total $3.765 million for Test Year 2004 in both accounts. We make this adjustment not based on re-characterizing the costs as "lobbying" but because SoCalGas did not meet its burden of proof and failed to quantify and justify any increase.

D. SDG&E Accounts 920 & 921 Administrative and General – Salaries and Expenses for Regional Public Affairs

ORA proposed an identical adjustment for SDG&E for Salaries and Expenses for Regional Public Affairs as was made for SoCalGas, arguing the costs are lobbying. We will make the same adjustment, holding SDG&E at the 2001 level of $0.605 million in total for both accounts for Test Year 2004. In the next rate proceeding, both applicants and ORA are invited to make a more task-specific and detailed recommendation. UCAN argued for no increase over the

[343] Ex. 3, beginning at p. FA-53.

SDG&E base amount.[344] This is a reduction of $0.052 million in Account 920 and $0.512 million in Account 921 "O" for SDG&E's Test Year 2004.

1. SoCalGas – Human Resources Account 920.2

SoCalGas explained that a "key driver" for training program success is to continually redesign or up-date programs to be current with policy and procedures and regulatory changes.[345] This activity is Instructional Design. ORA proposed an adjustment of 1.2 positions for $0.115 million for one instructional design manager and 0.1 each for two other positions and $0.047 million in other costs because in its opinion SoCalGas did not justify the costs.[346] ORA did not explain what was lacking in SoCalGas' justification, and so we cannot tell if ORA's objection itself is reasonable. We will not make adjustments that represent a small fraction an employee position. We will not make ORA's adjustment; SoCalGas justified need for the instructional design program.

2. SDG&E – Human Resources

ORA recommended a $0.255 million adjustment for four of the 12 new positions requested by SDG&E. ORA argued that SDG&E had carried several vacant positions for some time before filling seven in 2002, and therefore feels another eight are sufficient.[347] . We will adopt ORA's $0.255 million reduction to the 2004 estimate

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[344] UCAN opening litigation brief, p. 68.

[345] Ex. 14, p. PJF-14.

[346] Ex. 301, p. 14-16.

[347] Ex. 302, p. 14-13.

3. SoCalGas and SDG&E Severance Payments

ORA proposed that the forecast of severance payments, based on historical payments, should be excluded from the test year, citing D.00-02-048[348] for PG&E, because a position that is already funded (in the forecast) provides salary savings while vacant. This would assume that a position is then vacant for a sufficient time for the savings to offset the severance payment. ORA has not shown any analysis of actual (historical) severance payments compared to salary savings that would show this is applicable to either SoCalGas or SDG&E. We agree that SoCalGas and SDG&E should not get an allowance for severance if savings are likely to equal or exceed the severance costs. However, we do not know the facts here.

4. Other Proposed SDG&E Adjustments

Two other items are an agreement to accept a $113,000 reduction reflected in both SDG&E's and ORA's end-of-litigation position to resolve an unidentified issue related to ORA's audit of 2001 recorded information and an un-reconciled difference between the SDG&E and ORA results of operations spreadsheets. We will rely on SDG&E's spreadsheets that included these items.

E. SDG&E Account 920 "B" A&G Salaries – Incentive Compensation Plan and Spot Cash Awards

For SDG&E, this account includes the costs of both incentive compensation and spot cash awards. As previously discussed, we decline to make any

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[348] Pages 261 and 262.

adjustments to disallow 50% of incentive compensation. We adopt the forecast salaries including at-target incentives as discussed in this decision.

F. SDG&E Account 920 - "C" Environmental Services

ORA proposed an adjustment based on SDG&E's 2002 actual cost being lower than 2002 forecast. As we have discussed before on forecast method issues, we will not readjust for minor recorded effects when we are forecasting from a 2001 base outward to 2004. The Joint SDG&E Comparison Exhibit shows a difference of $39,000 in labor costs. We will adopt the 2004 estimate of $1.133 million for Account 920 "C" (Gross).[349]

G. SoCalGas Account 921 - Administrative and General Non-Labor Expense

ORA proposed an adjustment for "non recurring, unusual and/or one-time expenditures" for $0.656 million in the 2001 base-year to derive Test Year 2004 non-labor costs. $0.110 million was identified by ORA from SoCalGas-prepared work papers as membership dues, donations and contributions, which SoCalGas argues are reasonable expenses, and ORA relied on D.96-01-011 to recommend disallowance of these types of expenses. We will adopt the continued disallowance of these costs as they are unlikely to be relevant and necessary to provide safe and reliable service.

ORA proposed to disallow a further $0.298 million for temporary labor help, and in rebuttal, SoCalGas argues ORA was wrong to do so, misidentifying the costs as outside consultants.[350] While it is true that Ex. 301 is extremely short

[349] Ex. 150, p. 97.

[350] Ex. 77, p. PJF-15.

on details and justification, the temporary help needs should have been addressed in funding the company's justifiable vacant and new positions in the functional accounts, including Account 920, and we will make this adjustment.

There are two other minor adjustments that SoCalGas disputes; $0.058 million in catering expenses, essentially lunch or dinner at meetings, mediation, arbitration, (again explained in rebuttal Ex. 77 and not explained in Ex. 301), and $0.047 million for employee recognition activities. We will not adopt either of the minor adjustments; if $58,000 can enhance productivity and $47,000 can enhance morale and productivity, we will allow these costs. This leaves $0.253 million that SoCalGas does not address in (rebuttal) Ex. 77 and ORA does not clearly identify as the "legal settlement" component in Ex. 301's description of the adjustment. We will adopt this residual adjustment because SoCalGas fails to carry its burden of proof to explain and justify its request. Thus, we adopt $5.122 million for Account 921 in Test Year 2004 ($5.485 million, less $0.110 million and $0.253 million).

H. SoCalGas Account 921.6 Administrative and General – Real Estate & Facilities

There is a $0.635 million difference between ORA's end-of-litigation position that is higher than SoCalGas' end-of-litigation position, because of a reduction in rebuttal Ex. 129. We will use the lower SoCalGas position in its results of operations spreadsheets. SoCalGas has also accepted a recommendation by TURN that the forecast for electricity costs from Edison should be reduced by $0.635 million based upon Edison's August 2003 rate reduction. We will not make a further reduction for $20,000 to reflect reduced energy costs at microwave towers.[351] SoCalGas argued there is no assurance leasors would flow through any savings. We adopt the end-of-litigation position, including TURN's one adjustment, of $12.454 million for the real estate portion of Account 921.6.

I. SDG&E Account 921 "A" and "F" - A & G Office Supplies & Expenses

After adjustments in its forecast to reflect a $2.178 million reduction related to ORA's review of recorded 2001 Base Year information, SDG&E requested $14.229 million. We accept the 2001 adjustment to the base without a need for further consideration. The following table reconciles the outstanding adjustments to show ORA's recommendation of $9.347 million. We will discuss the other adjustments below.

Table 15

	Issue Area	
	SDG&E Test Year 2004 Estimate	**$14.229 million**
	ORA Proposed Adjustments	
1.	Audit Adjustment (Included by SDG&E)	2.178 million
2.	Controller's Dept.	0.577 million
3.	Human Resources	1.475 million
4.	Labor Relations	0.107 million
5.	Strategic Planning	0.610 million
6.	One-time, Unusual and/or non-recurring	0.563 million
7.	Long-Term Incentives	1.457 million
8.	Shared Assets Billings[352]	0.099 million

[351] See Sempra opening litigation brief, p. 182, and TURN Ex. 501, p. 29.

[352] Ex. 150, p. 100, Issue 7: SDG&E states that its proposal is for $2,829,000 and ORA used $2,730,000 in its Results of Operations spreadsheets that equals a difference $99,000. Ex. 302, p. 10-21 used $2,860,000, which would be an increase of $130,000.

9.	Un-reconciled differences	0.006 million
	Adopted Changes	
	Human Resources	$0.887 million

1. SDG&E Controller's Department (2)

ORA proposed that outside consulting costs should be expected to decrease based upon approving a staffing increase – which were due to the new provisions of the Sarbanes-Oxley Act – and ORA concluded that more staff would reduce SDG&E's reliance on outside services and consultants. ORA also argued that SDG&E did not provide documentation to justify training needs.[353] ORA reduced the account by $0.577 million for 2004. In rebuttal, SDG&E argued that this would not allow for training to comply with the Sarbanes-Oxley Act. ORA's proposal is so brief that we cannot assess the basis of its recommendation.

We allowed SoCalGas and SDG&E the labor costs with the expectation of a significant workload under the Sarbanes-Oxley Act. We instructed both the applicants and ORA to look at the issue in greater detail and more explicit testimony in the next proceeding.

2. SDG&E Human Resources (3)

We decline to make ORA's $1.475 million adjustment for non-labor costs related to human resources. Again, ORA complained that they did not receive adequate justification, but ORA never raised a single discovery issue in the proceeding prior to serving testimony. It is not at all clear what ORA expected from SDG&E and ORA never provides an analysis of specific items and whether or not the costs should be recovered in rates. ORA did not, for example, appear

[353] Ex. 302, p. 14-10.

to analyze the need for $1.196 million for "relocation and search fees" in 2001 but this cost appears to increase by $0.745 million for relocation and $0.055 million for search fees.[354] ORA did not prepare an alternative estimate. We cannot arbitrarily delete portions of the request simply because they represent an increase. However, we find a combined $1.996 million for search and relocation costs in 2004 to be far too high in light of our rejection of the maturing work force argument, and our concern that SDG&E (and SoCalGas) are unlikely to fill all vacant and new positions. We will reduce SDG&E's Test Year 2004 expense allowance by $0.800 million and we will also decline to nearly double the cost for pre-employment physicals and background checks ($98,000 in 2001 and an increase of $87,169 for 2004), again because we doubt the level of hiring proposed by the applicants will really occur.[355]

3. SDG&E Labor Relations (4)

Again, ORA made a proposal to reject $107,000 of "retained" expenses – which is never explained – and again, it complained about a lack of documentation. In rebuttal, SDG&E asserted that $85,000 is "driven" by: $30,000 needed for a Taft-Hartley Trust;$14,000 needed for training of new supervisors working in a union environment; $34,650 for arbitration fees; and $6,350 in other costs.[356] We find the discussion and justification for a disallowance unpersuasive. There is no evidence that SDG&E's request is excessive.

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[354] Ex. 302, p. 14-13.

[355] These costs are itemized, but not analyzed, by ORA in Ex. 302, p. 14-13.

[356] Ex. 72, p. PJF-16.

4. Strategic Planning (5)

SDG&E requested an increase of $0.650 million in non-labor costs, most of it, $0.575 million for outside labor (consultants) for research and modeling. In Ex. 72, SDG&E demonstrated that there were five new activities: gas resource planning, studying the distribution markets, studying the need for gas transmission and storage, renewable electric generation modeling, and studying rate stability with consumer focus groups, that total $0.575 million. The remaining $0.075 million is for equipment.[357] ORA argued increasing the size of the strategic planning departments should diminish the need for outside consultants. With no indication how it derived the amount, ORA would propose the account be decreased by $0.610 million; the difference appears to be allowing the costs of computers and other expenses for two new employees.

SDG&E pointed out that the costs in this account are allocated between SoCalGas and SDG&E and any adjustment should be split between both companies. SDG&E argues that the new positions cannot perform the analysis necessary as SDG&E resumes electric procurement following the failure of electric industry restructuring and the gas markets are facing fundamental strategic questions.[358] We find that SDG&E has met its burden of proof for this expense estimate and we adopt SDG&E's forecast for 2004.

5. Long-Term Incentives (7)

We have rejected all adjustments to incentive compensation including the portion forecast in this account.

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[357] Ex. 72, Attachment F, the response to ORA Data Request 61, Q. 7.

[358] Ex. 72, pp. PJF 17 and PJF-18.

J. SDG&E Account 921 "C" Office Supplies & Expenses – Supplies Management

ORA proposed a $0.245 million adjustment by applying an adjustment for 2002 actual costs compared to 2002 forecast. We rejected all similar adjustments to rely on 2002 costs and we will not make an adjustment that does not demonstrate a linkage to the likely activity level in 2004.

XXV. Shared Services

SoCalGas and SDG&E are allowed to perform shared services for each other under the terms of the Sempra merger decision,[359] D.98-03-073. "SDG&E and SoCalGas will be organized in a manner that allows them to provide the highest quality utility service that focuses on safety and reliability, and is responsive to customers' needs."[360] SoCalGas and SDG&E have met the burden of proof to show that the test year forecasts are reasonable. Applicants presented detailed testimony in support of the shared services costs[361] with descriptions of the functions of the various departments and explanations of the test year forecast that was derived based on a 2001 Base Year and necessary adjustments to estimate the test year expenses.

ORA in its testimony and litigation brief took exception to the allocation of those shared services costs and in particular the allocation into FERC accounts. But ORA misplaced its focus on the allocation[362] rather than perform an

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[359] D.98-03-073 dated March 26, 1998, in A.96-10-038; 79 CPUC 2d 343.

[360] 79 CPUC 2d 343; at 453.

[361] Ex. 11 and Ex. 11-E for SoCalGas and Ex. 33 and Ex. 33-E for SDG&E.

[362] ORA litigation brief, at 176, 177.

examination of the nature of the costs of the underlying services themselves; it is less important to us whether the charges are correctly allocated to the right FERC account for financial reporting than whether the underlying programs are necessary and reasonable for safe and reliable customer service. This contrasts with UCAN's approach discussed below.

In the Sempra merger decision SoCalGas and SDG&E were provided with the opportunity to share services. "Each utility Affiliate will, to the extent it makes business sense, share resources with the other utility Affiliate."[363] We note too that the merger decision provided for an independent audit: "Intercompany transactions and related transfer prices will be periodically audited to ensure that policies are observed and that potential or actual deviations are detected and corrected in a timely and cost efficient manner."[364] In that decision, inter-company transactions did not include those between SoCalGas and SDG&E; they were excluded, and only those with the parent and the unregulated affiliates of the parent were to be audited.

As a requirement of D.98-08-035,[365] the decision that adopted the *Affiliate Transaction Rules* in R.97-04-011, there is an annual audit performed by expert independent auditors. There was a recent annual audit report by NorthStar Consulting Group (NorthStar) dated May 1, 2003 for both SoCalGas and SDG&E. These two separate reports were filed with the Energy Division and served on the parties in R.97-04-011. The SoCalGas report found the following:

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[363] 79 CPUC 2d 343; at 453.

[364] 79 CPUC 2d 343; at 461.

[365] D.98-08-035 dated August 6, 1998, in R.97-04-011 an I.97-04-012; 81 CPUC 2d 607.

> "During 2002 Sempra Energy integrated the operations of SoCalGas and SDG&E. As a part of the integration over 800 Sempra Energy Corporate Center personnel providing shared corporate services were transferred to SDG&E. During the audit, NorthStar carefully examined the provision of shared services to determine if the reorganization had resulted in any compliance problems related to the provision of shared services, separation, or preferential treatment."[366]

Without consideration of the validity of NorthStar's findings, we note that these audits could be useful as a basis for ORA and other parties to critically examine the test year requests made by SoCalGas and SDG&E in subsequent proceedings.

ORA proposed a disallowance for SoCalGas only of $1.175 million, but the testimony in Exhibit 302 and the ORA litigation brief[367] fail to clearly specify the reason that the disallowance is appropriate. We find that ORA has failed to raise a valid criticism of the SoCalGas and SDG&E forecast estimates for shared services.

ORA proposed in its opening litigation brief that it wants to "work with Sempra on coming up with a better format for presenting this data."[368] We support this idea, and would suggest that TURN, UCAN and any other party that wishes to participate should be included in the discussions. We will direct

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366 NorthStar's report at Introduction, p. 2. We only take notice of the existence of the audit, we do not make any discretionary decision here that relies on the audit.

367 ORA litigation brief, at 184. This figure does not match ORA's earlier tabulation, but is close to SoCalGas' figure in its brief, $1.179 million, shown above, and further highlights the confusion.

368 ORA opening litigation brief, p. 184.

the parties to plan, schedule and conduct workshops prior to the next rate case that we may have a more meaningful discussion in the next rate proceedings for SoCalGas and SDG&E. It is our belief that the focus of future regulatory reviews for the adoption of subsequent test year estimates should be on the organization and function in place for the provision of common services. Any cost allocation to numerous FERC accounts is a far less important issue and we would consider any additional reasonable suggestion to simplify the accounting on costs transferred between SoCalGas and SDG&E to avoid the artificiality of allocating costs to accounts that do not reflect the structures and operations of the two companies.

With the exception of Information technology costs also forecast in Account 923, and discussed elsewhere in this decision, we adopt the 2004 forecast for Account 923 as shown in SoCalGas' spreadsheets in support of the Joint Comparison Exhibit.

A. SDG&E Account 921 "E1" and "E2" Sempra Energy Corporate Center (Administrative & General Costs)

SDG&E requested $54.474 million for Test Year 2004 for the company's share of costs for services performed at Sempra Energy's Corporate Center. ORA proposed $48.693 million after a number of specific recommendations that would reduce the estimate by $5.781 million, or about 10.6%. The following table[369] summarizes the proposed changes.

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[369] Source: Ex. 150, pp. 104-105. It should also be noted, ORA's Ex. 302 does not show this level of detail or clarity for its recommendations; the adjustment amounts in Ex. 150 do not appear in Ex. 302. We rely on Ex. 150 as a summary source for the revenue requirement spreadsheets used to adopt the revenue requirements in this decision.

Table 16

	Issue Area	
	SDG&E Test Year 2004 Estimate	$54.474 million
	Agreed Changes	0.353 million
	Audit Adjustment	0.006 million
1.	Energy-Crisis related consulting[370]	0.526 million
2.	Employee Volunteer & Giving Programs	0.115 million
3.	Accounting Shared Services	0.527 million
4.	Tax Services	0.506 million
5.	Non-recurring [(a)]	0.016 million
6.	Training/Development	0.126 million
7.	Diversity Affairs	0.017 million
8.	General Counsel – Allocation Method	0.047 million
9.	Double-count of Life Insurance [(a)]	0.040 million
10.	Executive Dues & Events	0.020 million
11.	Adjustments Related to Shared Assets	0.040 million
12.	Depreciation, etc., Payroll System [(a)]	0.024 million
13.	Payroll Taxes [(a)]	0.203 million
14.	Incentive Compensation	1.764 million
15.	Supplemental Executive Compensation	0.620 million
16.	Long-Term Incentive	0.906 million
17.	Miscellaneous errata not reflected elsewhere	0.284 million
	Total ORA Recommended Disallowance	$5.781 million
	Adopted Recommendations	
	Items 1, 5, 9, 12, & 13 [(a)]	0.809 million
	Employee Volunteer & Giving Program	0.115 million

(a) SDG&E either accepted these changes or did not offer rebuttal.

[370] SDG&E either accepted these changes or did not offer rebuttal.

1. Undisputed Items (1, 5, 9, 12, & 13)

The Joint Comparison Exhibit identified Items 1, 5, 9, 12, & 13, that total $0.809 million, where SDG&E either offered no rebuttal or otherwise accepts the recommendation. We will therefore include these specific adjustments. Additionally, there is a further $0.353 million and an audit adjustment of $0.006 million that SDG&E indicated as included in its request of agreed changes to derive its $54.474 million request.

2. Employee Volunteer & Giving (2)

ORA identified $0.115 million as the costs for the External Affairs & Communications department for two sections, Corporate Community Relations and Corporate Events, that promote employee volunteer opportunities, all of which we do not doubt to be of social value and benefit. We agree with ORA that as a matter of public policy we cannot impose any of the costs associated with philanthropic activities on ratepayers. We adopt the adjustment and we also direct SoCalGas and SDG&E to record these costs in a non-utility account or to refuse the allocation of the charge from Sempra.

3. Accounting Shared Services (3) & Tax Services (4)

ORA proposed to disallow $0.527 million for accounting shared services, and in Ex. 302 argues that Sempra has over-estimated the need for Sarbanes-Oxley related expenses. As we discuss in Account 920, we intend to allow Sarbanes-Oxley related costs; we expect a thorough accounting in the next proceeding on the actual efforts necessary to comply.

ORA also argued that it "concludes that Corporate Center, Tax Services, has included 22 new positions" and ORA was concerned that it is not clear that any new tax codes have warranted this large an increase.[371] In rebuttal, SDG&E takes exception to ORA's calculations and interpretations,[372] and we cannot judge because ORA does not show its calculations and does not address the rebuttal in its Opening Litigation Brief. Without any response to SDG&E's clarification, we accept SDG&E's position. We will allow these costs. SoCalGas and SDG&E should provide a thorough accounting for the actual changes in tax-related workload in the next proceeding.[373]

4. Leadership Training & Development (6)

ORA proposed a disallowance of $0.126 million for executive level recruitment costs, and objected to certain costs, which it believes are intended for teambuilding. The prepared testimony in Ex. 302 does not persuaded us that these costs are inappropriate. We have no objection to teambuilding and we expect SoCalGas and SDG&E management to work together well in order to better serve ratepayers. SoCalGas and SDG&E rebuttal convinces us that ORA's

371 Ex. 302, p. 10-13.

372 Ex. 64. p. FHA-7 ff.

373 There are several occasions where we direct SoCalGas and SDG&E to provide a better explanation or "a thorough accounting for the actual changes" for an activity or program in the next proceeding. We are not proposing this will be a "reasonableness review" that might disallow costs recovered in Test Year 2004 rates. This directive to provide more information is intended to be used to assess the credibility of the forecast methodologies in the next proceeding to the extent that SoCalGas and SDG&E rely on a base year's recorded information. In the case of Sarbannes-Oxley, we expect significant detail once the applicants have some experience in complying with its requirements.

duplicative activities incorrectly included non-utility portions, too. Another portion of the increase relates to the change in capitalization policy (discussed and adopted elsewhere in this decision) and ORA did not identify that factor. ORA's opening litigation brief merely repeats the original testimony and does not respond to SoCalGas and SDG&E rebuttal, we therefore accept the unchallenged rebuttal explanation as more complete and thorough than the ORA position.

5. Diversity Affairs (7)

In its Opening Litigation Brief, ORA made the following admission: "ORA did not address any issues relating with SDG&E's workforce diversity" and it makes the same statement with respect to SoCalGas.[374] It did however, propose to disallow the cost for the US Department of Labor's *Secretary's Award* only stating, "ratepayers should not be asked to pay for campaigns to achieve awards."[375] SoCalGas and SDG&E disagreed, arguing in rebuttal that apart from enhancing Sempra's image and reputation, these awards and programs are a demonstration of its commitment to diversity and they contribute to recruiting qualified female and minority candidates.

We expect nothing less than SoCalGas and SDG&E to comply with the spirit and the letter of the law – state or federal – that imposes any legal obligations to ensure workforce diversity, a discrimination-free work environment and a safe work environment. We see the costs here not as

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[374] Page 200.

[375] Ex. 302, pp. 10-15 and 10-16.

corporate image puffery (such as naming a ballpark would be) but as ways of providing the work environment we expect. We will adopt SDG&E's request.

6. Allocation of General Counsel (8)

ORA proposed to allocate the cost of the General Counsel (who serves not only SoCalGas and SDG&E but Global Enterprises too) on an equal one-third basis. SoCalGas and SDG&E argued the cost is correctly allocated in their applications in the same fashion as other legal expenses, to the beneficiary company, and we agree. Even between SoCalGas and SDG&E, an equal split would not be warranted on company size.

7. Executive Dues and Events (10)

ORA proposed adjustments to dues and contributions made for the benefit of senior executives. The proposed disallowances include subscriptions (Wall Street Journal and other utility publications), dues (University Club of San Diego) holiday events, sports hospitality and inter-company shuttle van costs. In rebuttal, SoCalGas and SDG&E argued that these are "costs traditionally incurred by a top executive in the normal course of business."[376] They argued the shuttle lets the executives and shared management travel between San Diego and Los Angeles safely using the telephone or doing paperwork (so we assume someone else drives the van). While we do not condone ostentatious perks such as sporting event

[376] Ex. 64, p. FHA-13.

tickets,[377] we will allow the costs as a forecast for reasonable travel, meetings and civic interaction.

8. Shared Assets (11)

There is a necessary investment in long-term plant as a part of the cost to provide shared services. This plant is infrastructure to support the services. ORA proposed a $0.40 million adjustment but offered no explanation beyond the statement that "ORA has made some adjustments to plant." SoCalGas and SDG&E could not rebut the adjustment because ORA had not answered a discover request.[378] Without a sound basis, we cannot make this adjustment.

9. Compensation-Related (14, 15 & 16)

ORA proposed the disallowance of $3.290 million for three compensation-related items: 50% of Incentive Compensation, 50% of Supplemental Executive Compensation and 50% of Long-Term Incentive costs. As discussed in the section on Employee Total Compensation, we decline to make any of these adjustments that would provide less than market rate compensation.

10. Miscellaneous (17)

Once again there is a large sum, $0.284 million (0.5% of the total) that does not reconcile between SDG&E and ORA spreadsheets. We will rely on SDG&E's

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[377] Details are sparse in Ex. 302, but we would not want the companies, for example, to pay for Super Bowl, U.S. Open Tennis or World Series tickets. We include compensation for all executives at full market rates; executive personal entertainment should not be disguised as a civic obligation. We expect SoCalGas and SDG&E officers to be ethically responsible when spending ratepayer funds.

[378] Ex. 302, p. 10-21 and Ex. 64, p. FHA-14.

spreadsheets in the comparison exhibit to compute the adopted revenue requirement.

B. UCAN's Review of Shared Services

The costs for the Sempra Energy's Corporate Center were reviewed by both TURN and UCAN and a joint consultant, Overland Consulting (Overland). UCAN argued its recommendations that total in excess of $10.0 million are "above and beyond reductions sought by ORA." (UCAN Opening Litigation Brief, p. 181.) Any UCAN adjustment that is an extension *above and beyond* ORA's, but is not justified on its own merits as different - only larger - will not be adopted if we have already rejected ORA's proposal on the same topic. UCAN did not clearly show the simple arithmetic effects of its adjustments; in the table below we calculated ourselves the difference between UCAN's assertions of the allocation to SoCalGas and SDG&E and its own recommendation.

Table 17

	Issue Area	
	SDG&E Test Year 2004 Estimate	$54.474 million
	SoCalGas Test Year 2004 Estimate	$111.563 million
	Total SDG&E and SoCalGas[379]	$166.037 million
	UCAN's Proposed Adjustments	
1.	External Affairs Sr. Vice President (A-1)	$0.374 million
2.	Legislative Governmental (A-3)	0.935 million
3.	Affiliate Compliance (A-4)	0.496 million

[379] These figures are from the Joint Comparison Exhibits, 150 and 149. UCAN's presentation is different, shown by organizational area. We list UCAN's adjustments by topic as litigated and briefed by UCAN. The captions are derived from the UCAN Opening Litigation Brief.

4.	Community Affairs (A-6)	0.302 million
5.	Communications (A-9)	0.254 million
6.	Holding Co. Chief Financial Officer (B-1)	0.136 million
7.	Investor & Shareholder Relations (B-2)	1.377 million
8.	Audit Services (B-3)	0.196 million
9.	Payroll (B-4)	0.071 million
10.	Accounting (B-5)	2.383 million
11.	Corporate Planning (B-6)	0.551 million
12.	Corporate Information Technology (B-7)	3.189 million
13.	Treasury (B-8)	0.718 million
14.	Risk Management – Insurance (B-9)	0.062 million
15.	Tax Services (B-11)	1.030 million
16.	Human Resources Senior VP & Staff (C-1)	0.368 million
17.	Corporate Staff (C-2)	0.333 million
18.	Diversity Affairs (C-3)	0.164 million
19.	Human Resources Information System	0.353 million
20.	Corporate Security (C-5)	0.104 million
21.	Compensation & Benefits (C-6)	0.460 million
22.	Training & Development (C-7)	1.310 million
23.	Corporate Secretary (D-3)	0.165 million
24.	Legal Department (D-4)	0.493 million
25.	Nuclear Property Insurance (IP-2)	1.079 million
26.	All Risks Insurance (IP-3)	2.301 million
27.	Officer & Director Insurance (IL-2)	6.814 million
28.	Excess Liability Insurance (IL-3)	1.622 million
29.	Other Liability Insurance (IL-5)	1.891 million
	Adopted Adjustments	
	Affiliate Compliance (A-4)	0.496 million
	Holding Co. Chief Financial Officer (B-1)	0.136 million
	Community Affairs (A-6)	0.302 million
	Corporate Information Technology (B-7)	1.950 million
	Tax Services (B-11)	0.305 million
	Total	**$3.189 million**

1. External Affairs Senior Vice President (A-1)

UCAN proposed, and SDG&E conceded, that $479,000 for a direct allocation of costs should be dropped. SDG&E also conceded the allocation should be based on all reporting departments, shifting more costs to be retained at the Corporate Center because these additional departments are not allocable to the utilities. UCAN further opposed $144,000 in governmental and regulatory consulting costs that it claimed were not adequately justified.[380] SoCalGas and SDG&E responded that UCAN first reallocated and then objected to costs in the reallocated departments.[381] Neither UCAN or SoCalGas and SDG&E unbundled the change to show the effects of UCAN's other adjustments. We will not make the incremental UCAN adjustment because we cannot consider the effects of other proposed adjustments on the allocation; we will rely on the SoCalGas and SDG&E end-of-litigation calculation.

2. Legislative Governmental (A-3)

UCAN proposed an allocation change, but did not provide adequate detail to allow an examination of the calculation. We again reject the allocation change as inadequately explained and as unjustified. UCAN further challenged consultant costs, and argued that SoCalGas and SDG&E did not show these costs to "directly and primarily benefit ratepayers."[382] The issue is whether SoCalGas and SDG&E receive adequate services necessary to safely operate the companies,

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[380] UCAN opening litigation brief, pp. 193-195.

[381] Sempra reply brief, p. 78.

[382] UCAN opening litigation brief, pp. 196-199.

regardless of whether the services are within the utility or the holding company. There is no assertion of duplication. UCAN also complained "no consideration is given to assigning costs to Sempra shareholders." (Ex. 607, p. 3-12.) UCAN provides no explanation for its assertion that it is unlikely that customers would benefit; UCAN provided no analysis of the activities for us to consider. There is no assertion or demonstration of anti-ratepayer-interest legislative advocacy by the Corporate Center. We agree with SoCalGas and SDG&E that the recommendations are "arbitrary."[383] We decline to make an adjustment.

3. Affiliate Compliance (A-4)

UCAN proposed to disallow the entire cost of the affiliate compliance department and argued the costs are incurred only because of the holding company and are only necessary to enforce the affiliate transaction rules that otherwise ensure ratepayers are not harmed by self-dealing between SoCalGas or SDG&E with Sempra affiliated companies.[384] SoCalGas and SDG&E responded that the Commission adopted a reorganization structure that included as one of its principles: "Overall policy, governance and strategic oversight, as well as some service and support services, will remain at the Corporate Center, and will be charged to the company <u>for which the work is performed."</u> (D.01-09-056, p. 10, emphasis added here.)

SoCalGas and SDG&E further argued "many of the rules would continue to apply to the Sempra Energy utilities," that is for transactions between

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383 Sempra opening litigation brief, p. 211.

384 UCAN opening litigation brief, pp. 201-203. UCAN's Brief repeats an incorrect citation to the 1999 PG&E general rate case included in Ex. 607, p. 3-14.

SoCalGas and SDG&E.[385] But SoCalGas and SDG&E miss the point; the only reason that we need to regulate transactions between SoCalGas and SDG&E, and between either of them and the other Sempra companies, is because Sempra chose to have a holding company to simultaneously operate two utilities and the other non-regulated affiliates. The rules prevent abuses of the relationship at the expense of ratepayers. We agree with UCAN that the work is performed to benefit Sempra and the other companies, and the Sempra desire to own two utilities. It is not for the benefit of SoCalGas and SDG&E, who would otherwise deal at arms length with unrelated entities. We adopt the $0.496 million disallowance for Test Year 2004.

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[385] Sempra opening litigation brief, p. 211, where SoCalGas and SDG&E give the wrong page citation, for the quoted reorganization principle.

4. Community Affairs (A-6)

UCAN expanded on the ORA elimination of costs for community volunteering and giving by proposing to eliminate the entire program, retaining only $122,000 for internal event and meeting coordination services to the two utilities.[386] UCAN would eliminate $302,000 that already includes the $115,000 that ORA proposed for disallowance. UCAN has convinced us that ORA did not identify all of the costs, so we will also disallow the incremental $187,000, so that ratepayers do not subsidize SoCalGas and SDG&E philanthropy.

5. Communications (A-9)

UCAN argued that the cost basis for the Communications department "appear to be" inflated because of one-time or non-recurring costs for 2001 energy crisis related videos. (Ex. 607, p. 3-23.) SoCalGas and SDG&E responded that they justified the costs based on ongoing programs and not the 2001 videos. UCAN has not provided convincing evidence that the programs are anything other than ongoing communications programs and we will not adopt the adjustment.

6. Holding Co.'s Chief Financial Officer (B-1)

UCAN proposed to allocate the costs of the corporate chief financial officer in proportion to the allocations of corporate departments and functions that report to that officer and not on a general four-factor method. We agree that management position costs should be allocated consistently with the programs and services under their direction and control. We will adopt UCAN's adjustment of $0.136 million in total for SoCalGas and SDG&E.

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[386] Ex. 607, pp. 3-16 through 3-18.

7. Investor & Shareholder Relations (B-2)

UCAN proposed two adjustments: (i) disallow all incremental non-labor costs for travel and incremental office expenses because post base-year 2001 costs could not be verified as having been spent; and (ii) allocate costs 50-50 between the two utilities and the other Sempra Companies. We will not disallow forecasts based on auditing into the forecast years. If UCAN had provided a reasonable explanation of why the costs are unlikely to be needed for 2004, we would consider that explanation. But we have rejected all other selective adjustments that depart from the base year methodology.

UCAN does not dispute the need for reasonable costs for investor and shareholder relations programs; it rejected the use of the multi-factor method – which would allocate about 72% of costs to the utilities – in favor of a 50-50 method. The primary method should always be as direct to the cost-causing entity or principal beneficiary as possible. The multi-factor method is a conventional default method. We could for example allocate these costs on the percentage of total capitalization, but we lack that data and an advocate for that method. Absent a more specific and well–justified alternative, we will allow the multi-factor allocation rather than a 50-50 method that is, as argued by SoCalGas and SDG&E, arbitrary.

8. Auditing Services (B-3)

UCAN’s objection to the auditing services costs was labor related; the inclusion of three new and two up-graded positions, which UCAN believed were added without eliminating the two old positions. We believe the evidence does not show any duplication. There is a minor difference proposed by UCAN for computer’s costs due to the capitalization policy change that we addressed elsewhere. We will not make this second adjustment. We adopt the applicants' estimates auditing services.

9. Payroll (B-4)

UCAN made another adjustment where it argued the direct and primary benefit of providing payroll services for Corporate Center employees is for the Corporate Center and not the utilities. This argument ignores the fact that Corporate Center costs are merely centralized costs the two utilities would otherwise incur. We will not adopt this adjustment.

10. Accounting (B-5)

When we discussed ORA's proposed adjustments we addressed the question of whether Corporate Center Accounting test year costs are reasonable. UCAN has attempted to reargue the role and purpose of the holding company, issues that are outside the scope of this proceeding. We decline to consider the recommendations.

11. Corporate Planning (B-6)

UCAN contended that there is a prohibition on recovering holding company services that do not provide a "direct and primary benefit" to utilities. UCAN recommended reducing the utilities' allocation for Corporate Planning from 47.79% to 6.53%. UCAN also argued that SoCalGas and SDG&E were not direct primary beneficiaries. SoCalGas and SDG&E responded that the Corporate Planning Department supports functions centralized at the Corporate Center that are not included in the utilities and the department works closely with the Treasury department to provide financial and business plans and other duties.[387] We do find the function to be duplicative or focused solely on the non-utility affiliates. We will not reduce the allocation.

12. Corporate IT (B-7)

UCAN proposed to disallow $1,367,000 in labor expense and $1,293,000 in system maintenance and vendor fees. The labor adjustment, according to SoCalGas and SDG&E does not reflect the change in capitalization – costs are expensed that used to be capitalized – and UCAN did not address the labor associated with new duties in the department. We will not adjust the labor estimate.

UCAN also argued that new information technology systems are not reasonable because they did not appear to increase productivity because of a labor forecast increase. SoCalGas and SDG&E argued that productivity savings did not drive the need for the systems; they are the result of new and increased business requirements including (but not limited to) Sarbanes-Oxley, labor compliance issues, and affirmative action tracking and reporting. By arguing only for cost savings or productivity increase issues, UCAN has not challenged the need for or benefit from the systems. We cannot agree that all systems must always reduce costs or otherwise increase productivity in order to be necessary.

Finally, UCAN argued against the use of the multi-factor method to allocate costs. In the above section, Investor & Shareholder Relations (B-2), UCAN argued for a 50-50 split rather than the multi-factor method. UCAN proposed the multi-factor rate of 72.16% here because UCAN claimed SoCalGas and SDG&E did not provide the information to support an allocation of 91.65%

[387] Sempra opening litigation brief, p. 217.

on historical tracking of direct and non-labor costs.[388] UCAN's claim[389] that the data was not available to support a tracking-based allocation is uncontested in the opening and reply litigation briefs. We will adopt the multi-factor allocation, reducing the allocation from 91.655 to 72.16%, so we will reduce Corporate Information Technology costs by $1.950 million, i.e., from $9.170 million to $7.220 million.[390]

13. Treasury (B-8)

UCAN proposed three adjustments to the Treasury Department: (1) eliminate syndication fees for bank lines of credit; (2) reduce the rate agency fees allocated to the utilities; and (3) reduce staff and travel expenses.

UCAN argued that the fees for a syndicate of banks to offer lines of credit properly belong in the cost of capital proceeding and not in base rates.[391] There is no citation by UCAN to that being the adopted practice for SoCalGas or SDG&E. The applicants conceded that one adjustment is needed for some costs already recovered elsewhere.[392]

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[388] SoCalGas and SDG&E's description in Ex. 33-E, p. FHA-46, and UCAN's argument in Ex. 607, p. 4-25.

[389] Ex. 607, p. 4-25.

[390] UCAN opening litigation brief, Table D-8; applying the UCAN allocation factor of 72.16% to SoCalGas and SDG&E's Common Allocable Costs of $10.008 million instead of using 91.65%.

[391] Ex. 607, p. 4-27.

[392] Ex. 114, pp. FHA-34 and FHA-35.

We would agree that these costs should only be recovered once; to that extent, we will allow their recovery here, but we put both SoCalGas and SDG&E on notice they must affirmatively show in their next cost of capital proceeding - that they are not seeking to recover the same costs, or even incremental costs, in another proceeding in-between applications for base margin revenue requirements. By choosing to request a fixed test year estimate here, SoCalGas and SDG&E implicitly accepted the forecast risks until the next proceeding to set a new test year revenue requirement so SoCalGas and SDG&E should not seek to revise or supplement the allowance in any different forum.

UCAN argued that SoCalGas and SDG&E could not show that the increase in rating agency fees is permanent, and was critical of SoCalGas and SDG&E because the companies could not indicate whether fees had actually increased since the base year. In rebuttal, the companies stated that the majority of costs go to the affiliates, and the first quarter 2003 actual costs were likely to exceed the test year estimate. We find these costs to be reasonable for Test Year 2004. SoCalGas and SDG&E operate in a market where the past sins of some industry participants may reflect on the industry as a whole, at least for the foreseeable future, so we accept the companies' forecast that rating agency costs have risen and will stay higher than the base year. We will not make this adjustment.

Finally, UCAN linked an increase in travel costs to new positions, but SoCalGas and SDG&E responded the travel would be an increase in the current traveling by the Vice President and Treasurer. We will accept this increase and not make an adjustment.

14. Risk Management – Insurance (B-9)

After adjusting the forecast to eliminate one position from its request, SoCalGas and SDG&E argued that UCAN only considered labor and did not consider other specified items in its requested increase for non-labor components, including insurance consulting and travel, that contribute to lowering insurance costs.[393] UCAN did not separate its recommendation between labor and non-labor; we will not make the additional adjustment.

15. Tax Services (B-11)

UCAN proposed a disallowance of $65,000 for computers and $305,000 for recruiting. In Ex. 607, UCAN determined that the tax services organization had increased by 19 employees since the base year and that it concurred with the forecast of the number of positions, all of which were now filled. Therefore UCAN argued the recruiting costs were for pre-test year activities.[394] SoCalGas and SDG&E argued that they would have ongoing recruiting and relocation costs but offered nothing in support of why they would have continuous turnover and why there would always be relocation expenses.[395] We agree with UCAN that these costs are not justified; we do not expect a constant churning of employees that requires recruiting and relocation costs on the scale that was necessary to expand the department.

SoCalGas and SDG&E responded that the computer expenses are the result of the change in the capitalization policy (which we adopt elsewhere) so computers that would otherwise be capital items are now expensed. The applicants also said this is a three-year replacement rate which is not consistent

[393] Sempra opening litigation brief, p. 220.

[394] Ex. 607, pp. 4-32 and 4-33.

[395] Ex. 114, p. FHA-38.

with the four-year rate we adopt in this decision, but we lack the detailed information to make that minor adjustment. We will reduce the forecast by $0.305 million for recruiting costs.

UCAN recommended reducing the allocation to the utilities of Tax Services from 58.07% to 45.12%, or approximately $800,000. UCAN derived this based on its reallocation of costs based on business unit employees.[396] UCAN also segregated a portion to the holding company, 21.25%, without explaining why at least a portion of those costs would not be attributable to the utilities. Even a 50-50 split of the "corporate" portion would increase the utility share to 56%. In rebuttal Ex. 114, SoCalGas and SDG&E provided a spreadsheet that showed the employees to be split 60% to the utilities and 40% to the non-utility affiliates, very close to the 58% in its spreadsheets.[397] We find that SoCalGas and SDG&E's allocation is reasonable.

16. Human Resources Senior VP & Staff (C-1)

UCAN echos ORA's proposal to disallow team-building expenses described as Leadership Training & Development. We have determined that SoCalGas and SDG&E had justified the costs for this team building or leadership training, and rejected ORA's proposal to disallow. UCAN makes no new or more compelling argument. We will not make UCAN's adjustment of $0.355 million.

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[396] Ex. 607, Table 4-20.

[397] Ex. 114, Attached response to UCAN's Data Request 17, Question 9.

17. Corporate Staffing (C-2)

UCAN proposed the total disallowance of the corporate staffing function at the Corporate Center relying on its interpretation of the direct and primary benefit criteria. Because the Corporate Center performs necessary functions for the utilities and non-utility and for the common "parent," it is reasonable to allocate to SoCalGas and SDG&E the fair share of costs of the Corporate Center in lieu of SoCalGas and SDG&E performing these tasks themselves. That includes adequate personnel/labor related support costs. We reject UCAN's proposal.

18. Diversity Affairs (C-3)

We have already rejected ORA's reduction for the Labor Secretary's Award; we will not consider UCAN's reallocation based on its employee count because we do not adopt a significant portion of UCAN's labor adjustments and we will not reduce the costs for this department. We accept SoCalGas and SDG&E's assertions[398] that there are continuous costs for training and education to remain proficient and effective in recruiting and retaining a diverse workforce. We expect the training and education to occur throughout the test year and beyond.

19. Human Resources Information System

UCAN had a proposal to disallow some labor costs that we reject because Sempra demonstrated errors in UCAN's assumptions and because UCAN appeared to disallow any projected position that was vacant at the time its

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398 Sempra opening litigation brief, p. 224.

consultant performed its analysis.[399] UCAN also proposed to disallow consulting, training and travel costs that UCAN categorized as not recurring; but this, as we have said before, assumes that no other years between rate cases will have other non-recurring costs. We reject the recommendation.

20. Corporate Security (C-5)

UCAN proposed that this cost center should be reduced in the test year by $80,000 for the costs of maintenance of the executive fleet, assuming the costs are handled by the Fleet Service Department. SoCalGas and SDG&E showed this was not correct. We accept SoCalGas and SDG&E's explanation.[400] The balance of the proposal appears to us to be related to UCAN's cost reallocation based on its different employee count. We do not adopt UCAN's allocation changes based on labor differences.

21. Compensation & Benefits (C-6)

We will not consider UCAN's compensation-level adjustments; we have already addressed total compensation levels for SoCalGas and SDG&E and that analysis applies here too. We also accept SoCalGas and SDG&E's assertions that other consulting costs and training are necessary as are the costs for communications concerning employee benefits.[401] We reject UCAN's adjustments.

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[399] Sempra opening litigation brief, p. 225.

[400] Sempra opening litigation brief, p. 226.

[401] UCAN opening litigation brief, p. 228.

22. Training & Development (C-7)

UCAN effectively disallowed 100% of the requested increase for this department. UCAN asserted the training and development departments lost five positions during the 2001 base period. UCAN proposed a labor reduction of $325,000. SoCalGas and SDG&E disagreed. SoCalGas and SDG&E also argued the focus of the departments have changed from "less focused efforts around general employee training and organizational development to a function responsible for more specific leadership competency-based training, people research, executive development and compliance training programs." (Opening litigation brief, p. 228.)

UCAN proposed a non-labor cost reduction of $1,275,000 because SoCalGas and SDG&E did not provide information on various management and leadership development programs. SoCalGas and SDG&E dispute this and cite Ex. 33, several data responses and also rebutted the assertions that costs were deferred or one-time.[402] UCAN appears to overly identify costs as "one-time" without consideration that rates will be in effect for several years. We think it is appropriate for the training programs (in this case) to be continuous – not chopped for a short-term benefit of lower rates. We will require SoCalGas and SDG&E to provide a detailed program listing in their next general rate proceedings showing the frequency of training, the costs of training, and to clearly identify the scope and purpose of all training and development programs. We will not cut the non-labor component this time without a reasonable and thorough justification.

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[402] Sempra opening litigation brief, pp. 225-226.

23. Corporate Secretary (D-3)

UCAN attempted to bootstrap the allocation of corporate secretary costs adopted for PG&E to fit the SoCalGas and SDG&E situation.[403] We agree that like PG&E they are regulated utilities with a holding/parent company that have (or had prior to the bankruptcy of PG&E's National Energy Group) non-regulated affiliates. But the relevant allocation for Sempra's corporate secretary to SoCalGas and SDG&E should be based solely on the actual duties and the cost-responsibility of the department relative to all of the Sempra companies. SoCalGas and SDG&E argued the PG&E corporate secretary duties are different, and UCAN did not provide a comparison to show they are similar to Sempra's.[404] UCAN accepted the direct allocation of travel expenses away from the utility and then proposed a 50-50 split of the balance without explaining why this downward adjustment is correct or appropriate. We will not adjust the Corporate Secretary allocations to SoCalGas and SDG&E for the test year.

24. Legal Department (D-4)

SoCalGas and SDG&E provided a detailed explanation of the test year forecast for legal expenses.[405] UCAN disputed whether or not the forecast of employees in the legal department reasonably reflected the forecast for the test year. UCAN based its recommendation on comparisons of the January 2001 headcount with those in January 2002 and June 2003 and later in errata to Ex. 607 significantly modified its calculations. SoCalGas and SDG&E argued in Briefs

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[403] Ex. 607, p. 6-4.

[404] Sempra opening litigation brief, p. 226, and Sempra reply brief, pp. 88 & 89.

[405] Ex. 33-E, pp. FHA-79 ff.

that this is an inappropriate update of methodology. SoCalGas and SDG&E argue that actual hiring from the base year into 2002 and 2003 shows the Legal Department "on-track" to have the test year staff on board. We find the UCAN calculations are not a reasonable predictor of actual staff in 2004.

UCAN did not argue the number was too big; only that the rate of hiring was unlikely; we will adopt SoCalGas and SDG&E's forecast.

25. Nuclear Property Insurance (IP-2)

SDG&E contributes to an industry insurance scheme for nuclear generation plants operated by Nuclear Electric Insurance Ltd. (NEIL). On an annual basis SDG&E contributes a premium and, as appropriate based on its reserves,[406] NEIL makes refunds to participants such that in recent years SDG&E has had a negative cost; refunds exceeded premiums. The 2004 Test Year dispute between SDG&E and UCAN is over the likely 2004 refund in comparison to recent years. SDG&E argued in rebuttal that the company knows from NEIL the 2004 premiums will rise and the expected refunds will decline. UCAN proposed that we should adopt the 2003 refund based on information that the refunds would "level off."[407]

SDG&E provided later credible information[408] in its rebuttal exhibit (Ex. 114) that the refunds would significantly decline, so the 2004 estimate

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[406] This is our term, the briefs are not sufficiently detailed – it is the concept that matters, and "reserve" is adequate to describe the issue for our limited purpose here.

[407] Ex. 607, p. 8-5.

[408] E-mail from Sempra's insurance advisor, Marsh USA Inc., dated September 17, 2003.

declined to a net refund of $0.561 million. We will accept the reliability of this later information and not adopt UCAN's recommendation.

26. All Risks Insurance (IP-3)

UCAN acknowledged it was unable to present premium information and that it was relying on policy declarations rather than recorded expense data. SoCalGas and SDG&E responded that information was available and in rebuttal (Ex. 114) provided adequate supporting information to demonstrate that the test year forecast was reasonable. UCAN, according to SoCalGas and SDG&E identified two policies as related to Sempra business presumed to be in Bermuda and London when the policies refer to the insurers' locations, not the location of coverage.[409] We agree that SoCalGas and SDG&E met their burden of proof and UCAN did not raise a reasonable concern.

27. Officers & Directors' Liability Insurance (IL-2)

We addressed this issue in Account 925 and reject ORA's 50-50-split proposal and we will make no further adjustment to Officers & Directors' Liability Insurance. UCAN argued that because there are allegations of market manipulation against Sempra Energy, we should disallow insurance premiums on the theory we would not allow recovery of damages from ratepayers.[410] UCAN has not shown any proof of wrongdoing. Insurance is to protect honest well-intentioned directors and officers while they perform their duties. If that ever proves not to be the case, not paying the insurance costs is an inadequate

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[409] Sempra reply brief, p. 93.

[410] UCAN opening litigation brief, p. 287.

response to director and officer misconduct. If there were corporate malfeasance, rather than rejecting insurance costs, we could for example consider other governance condition changes in the holding company relationship with SoCalGas and SDG&E.

28. Excess Liability Insurance (IL-3)

In rebuttal Ex. 114, SoCalGas and SDG&E reduced their combined request for excess liability insurance by $1.355 million[411] using a 12% increase over 2003 actual premiums that had also increased over 2002 by 12%. UCAN developed a 2004 forecast from an analysis of policy declaration pages. UCAN also disputed this forecast on the basis that the 2003 premium covered a portion of 2004; the policy runs from June 2003 through May 2004. We will not adjust for this fact; as it appears to be a permanent timing difference, thus recorded expenses for every year would reflect a split-year policy period.

29. Other Liability Insurance (IL-5)

There are four components of Other Liability Insurance where UCAN took exception to SoCalGas and SDG&E forecasts: employment practices, broker fees, insurance taxes, and an "other" category. UCAN would reduce the test year estimates by $1.891 million.

UCAN recommended that employment practices premiums should be restricted to the 2002 level because it lacked adequate information on actual 2003 premiums. Fundamentally in a future test year rate regulation regime we are obliged to make educated forecasts and UCAN insists on trying to use the lack of recorded or actual data beyond the base year as a justification for not forecasting.

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[411] Compared to the original application. (See Ex. 114, pp. 67-68.)

We do not regulate all expenses on a backwards-actual cost test year basis. We adopt all of SoCalGas and SDG&E's forecasts for Other Liability Insurance costs as updated and corrected in the rebuttal testimony (Ex. 114) because it is the best available forecast information.

C. SoCalGas Shared Corporate Services

The costs for the Sempra Energy's Corporate Center were reviewed by ORA in one place in Ex. 302, and the adjustments are different only because of the allocation between SoCalGas and SDG&E. The following table is drawn from Ex. 149, the Joint SoCalGas Comparison Exhibit, and Ex. 64, rebuttal by SoCalGas. We make any appropriate adjustments to SoCalGas allocations below.

Table 18

	Issue Area	
	SoCalGas Test Year 2004 Estimate	$111.563 million
2.	Employee Volunteer & Giving Programs	0.172 million
3.	Accounting Shared Services	0.798 million
4.	Tax Services	0.514 million
6.	Training/Development	0.371 million
7.	Diversity Affairs	0.032 million
8.	General Counsel – Allocation Method	0.047 million
10.	Executive Dues & Events	0.020 million
14.	Incentive Compensation	1.988 million
15.	Supplemental Executive Compensation	0.935 million
16.	Long-Term Incentive	1.062 million
18.	Directors & Officers' Insurance [412]	3.752 million
	Total ORA Recommended Disallowance	$9.111 million
	Total ORA Recommended Disallowance [413]	$10.004 million

[412] Directors and Officers' insurance is discussed jointly for SoCalGas and SDG&E in Account 925.

	Adopted Recommendations	None

1. SoCalGas Account 923 - Outside Services

Unfortunately, the comparison exhibit and both the ORA and Sempra opening litigation briefs do not match. The comparable accounting treatment for SDG&E is in Account 921 "E1" and "E2," above.

The Comparison Exhibit, (Ex. 149) provides this summary:[414]

Table 19

Account 923.0	**SoCalGas**	**ORA**	**Difference**
Non-Standard	$96.881 million	$89.565 million	$7.316 million
Account 923.1			
Non-Standard	$14.772 million	$12.977 million	$1.795 million
Total			
Non-Standard	$111.563 million	$102.542 million	$9.111 million

The ORA Opening Litigation Brief provides this summary:[415]

Account 923.0	**SoCalGas**	**ORA**	**Difference**
Non-Standard	$97.851 million	$89.565 million	$8.286 million
Account 923.1			
Non-Standard	$14.379 million	$12.977 million	$1.402 million
Total			
Non-Standard	$112.230 million	$102.542 million	$9.688 million

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413 Ex. 64, p. FHA-2, rebuttal to ORA, for both SoCalGas and SDG&E to ORA's recommended adjustments for Sempra Energy Corporate Center allocated costs.

414 Ex. 149, p. 88. Reformatted)

415 Page 157. (Reformatted.)

The Sempra Opening Litigation Brief provided this summary:[416]

Account 923.0	SoCalGas	ORA	Difference
Initial Position	$111.563 million	$102.435 million	$9.128 million
After Ex. 89 and Errata log	$111.563 million	$110.384 million	$1.179 million

SoCalGas and SDG&E describe the account, in conjunction with Account 921 as follows:

> "ORA recommended four adjustments related to shared service billings from SDG&E to SoCalGas. These adjustments totaled $9,128,484 in FERC Account 923 and $979,000 in FERC Account 921. The organizations impacted were Human Resources, Strategic Planning and Senior Management. Recognizing the complexity of the issue, SoCalGas endeavored to work with ORA to explain how the allocation process worked. SoCalGas and SDG&E presented reconciliations requested by the ORA to justify the allocations. These reconciliations are included as attachments to Exh. 89. ORA changed their recommended disallowances for shared services to only the expenses that are disallowed at SDG&E. The ORA instructed SDG&E to calculate this amount. This calculation was made and provided to the ORA on September 10, 2003. Based upon the errata change log provided by ORA on September 12, it appears that the recommended disallowance of allocations from SDG&E to SoCalGas was changed from $979,000 for FERC Account 921 and $9,128,484 for FERC Account 923, to a proposed adjustment by ORA of $1,179,473 in FERC Account 923. This new proposed reduction by ORA is based on the ORA proposed adjustments at SDG&E, which are allocated to SoCalGas via the shared service allocation process.

[416] Page 190 (mimeo.), p. 192 (electronic) extracted from text. Assumes the SoCalGas figures in Ex. 149 are correct because SoCalGas prepared the Joint Comparison Exhibit and calculated the ORA recommendation based on the cited adjustments.

> These proposed adjustments were addressed in Exh. 72…”
> (Sempra Opening Litigation Brief, p. 190 (mimeo.).)

Neither ORA, nor SoCalGas and SDG&E, discussed Account 923 or Shared Services issues in their Litigation Reply Briefs. We address this account in the sections that follow, below.

2. Insurance Costs

Insurance costs for both SoCalGas and SDG&E are one type of costs centrally managed by the Corporate Center on behalf of both the two utilities and all other Sempra Energy non-regulated companies, grouped together as Sempra Energy Global Enterprises (Global), or costs that are “retained” by the Corporate Center (Retained Costs). All types of insurance, whether related to SDG&E’s liability for its ownership in SONGS, general liability for all companies or Directors and Officers’ liability, etc., are centrally controlled and then allocated. Nearly identical exhibits were sponsored by SoCalGas and SDG&E (Ex. 11, 11-E and Ex. 36, 36E, respectively) to present an overview of the insurance coverage, which is then allocated between the utilities, Global or Retained.

Except as we consider and adopt or reject specific recommendations by ORA and other intervenors, in the following sections, we otherwise find SoCalGas and SDG&E met their burden of proof and adopt for Test Year 2004 the SoCalGas and SDG&E end-of-litigation estimates for insurance. We will address specific issues in the appropriate accounts.

3. SDG&E Account 923 - Outside Services

The Joint Comparison Exhibit, at p. 107, states that ORA proposed an allowance of $5.414 million for Test Year 2004, which is $155,000 less than SDG&E’s position. SDG&E’s rebuttal, Ex. 72, used the pre-errata ORA figure of

$5.541 million, but points out the adjustment is never described in Ex. 302. The ORA Opening Litigation brief fails to delineate the proposal at all. We decline to search for ORA's adjustment, and consider ORA to have withdrawn or abandoned its proposal; therefore, we adopt SDG&E's request for $5.569 million.

4. SoCalGas and SDG&E Account 924 - Property Insurance

For both SoCalGas and SDG&E, the differences are solely the result of not reflecting all errata changes in the results of operations. We will rely on the applicants' spreadsheets for this decision's calculations.

5. SoCalGas and SDG&E Account 925 - Directors and Officers' Insurance

ORA and UCAN opposed the estimates for Directors and Officers' Liability insurance. ORA proposed a 50-50 split between the utilities and the remaining Sempra entities. The proposed split by SoCalGas and SDG&E is a 72-28 split based on a basic default allocation method known as the "four factor" method, which is used for several different insurance types of coverage.[417] ORA characterized the Commission's adopted position in D.00-02-046[418] as reflecting a

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[417] Ex. 33, attached "Exhibit A-15": Crime, Special Crime; Broker Services; Directors and Officers; Excess liability; Employment Liability, Fiduciary, Group Executive, Broker Fees.

[418] During the proceeding PG&E agreed that a component of officers' liability insurance should be allocated to affiliates based on relative asset values between PG&E and its affiliates. PG&E reduced the allocation to the utility from $1.25 million to $799,000. This proposal is uncontested and will be adopted. … TURN, joined by Enron, recommends that 50% of the cost of officers' and directors' insurance allocable to the utility be further allocated to shareholders as a below-the-line expense. Thus, they recommend that PG&E be authorized to recover $400,000 of this insurance cost from ratepayers." (Mimeo., p. 310, (emphasis added).)

split between ratepayers and shareholders of the costs in exchange for the benefits afforded to each for the protection offered by the insurance.[419] In PG&E's case, there was not an allocation by PG&E prior to the ORA recommendation (which was actually a 64 –36 split, ORA proposed a $799,000 share to PG&E ratepayers of the total $1.25 million) and it was TURN and Enron (in the PG&E proceeding) that proposed a 50-50 split, which was really a 32-68 split because the $799,000 was further reduced to $400,000.

SoCalGas and SDG&E pointed out the insurance policy in this proceeding has a $10 million deductible before the insurance company pays any claim – and the applicants are not seeking an amortization of any assumed deductible, only the premium. The applicants combined allocate 72% of the premium only to ratepayers. The balance is recovered through either the non-utility revenues available to Sempra Energy or the shareholders' earnings from SoCalGas and SDG&E.

It is not stated in the exhibits whether ORA took the deductible into consideration either in this case, or in its position in PG&E's A.97-12-020 (which led to D.00-02-046). It is clear that SoCalGas and SDG&E allocated the costs between utility and non-utility as a part of the initial filing and would absorb any deductible costs in the event of a claim. SoCalGas and SDG&E pointed out that D.97-07-054 adopted the SoCalGas estimate for Directors and Officers' Liability insurance and the merger decision, D.98-03-073 captured the savings from a combined policy, so SoCalGas and SDG&E argue the Commission should adopt their estimate as reasonable in this specific situation. We agree. The costs for

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[419] Ex. 300, pp. 4-10.

this insurance and the risk of claims, are already adequately divided between ratepayers and shareholders. We adopt the companies' Test Year 2004 estimates.

The final issue is the differences in the ORA and applicants' results of operations, caused by filing errata and not updating calculations. We will rely on the applicants' end-of-litigation estimates because they have been consistent in updating for errata and other changes.

6. SoCalGas Account 930 - Miscellaneous Expense Accounts

a) Account 930.0 - Miscellaneous

There is a discrepancy, like others previously discussed, between the errata positions of parties and the end-of-litigation positions. We will rely on SoCalGas and adopt $5.270 million for Test Year 2004.

b) Account 930.2 - Research Development & Demonstration

SoCalGas requested $9.065 million in research development and demonstration costs and ORA proposed three adjustments: to completely disallow one new and one old project, and a 50% reduction to the administration costs. Additionally, ORA's math in its results of operations spreadsheets and testimony has a $0.403 million discrepancy, so we will rely on the SoCalGas data. We otherwise adopt SoCalGas' forecast and consider the ORA adjustments below.

c) Power Generation

ORA and SoCalGas agreed on the project description of power generation research development and demonstration: it is designed to improve the cost effectiveness, energy efficiency and emission levels of distributed generation products and related technologies, including advanced internal combustion engines, "stirling cycle" engines, micro turbines, fuel cells and hydrogen reformers. SoCalGas requested $2.072 million for Test Year 2004. ORA argued, however, that these are technologies where private entities are now competitively developing products and ratepayers should no longer fund this type of research development and demonstration project.[420] SoCalGas stated that the purpose of funding this program is to ensure products are developed on an accelerated basis and deployed to improve air quality. SoCalGas argued that distributed generation (where this technology may be deployed) is critical to reduce pressures on the electric grid and that ORA's logic is "reckless and ill-advised"[421] to abruptly end funding simply because there is now early success, for example, with one product, an Ingersoll Rand microturbine. SoCalGas argued that intellectual property rights from successful research development and demonstration generate royalties that return to ratepayers in addition to the benefits from successful technology in service. SoCalGas disagreed with ORA that fuel cells, another example, are commercially viable now.[422] We will not make ORA's adjustment.

d) Integrated Energy System Controls

The integrated energy system controls are activities related to building automation and controls. ORA proposed a disallowance of $0.762 million but provided no specific explanation other than to assert that there are commercial control systems on the market. SoCalGas responded that the commercially

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[420] Ex. 301, p. 9-46, ff.

[421] Ex. 69, p. DB-3, lines 9-10.

[422] Ex. 69, pp. DB-2, ff.

available systems are highly specialized prototypes, which are not standardized or supported by vendors. SoCalGas proposed to continue to develop intellectual properties through successful research development and demonstration activities.

We find that the ORA recommendation is too superficial an examination of the role, benefits and purpose of ratepayer-funded research development and demonstration projects and we are concerned that we would be decreasing funding too soon, thus wasting past expenditures, as SoCalGas argued. We note SoCalGas' testimony is light on numbers and heavy on rhetoric (calling ORA "reckless" is inappropriate and a disservice to the record) and we will expect much more data analysis in support of its request in the next rate application.

e) Administration

ORA provided no explanation for its adjustment to administrative costs so we will decline to consider it any further.

As a result of the above discussions, we adopt the SoCalGas Test Year 2004 request of $9.065 million for Account 930.2 - Research Development and Demonstration expenses.

D. SDG&E Account 930 "C" - Environmental Services

SDG&E seeks $2,595,000 for salaries and expenses for employees who maintain meter records, field operations, and other tasks. ORA proposes a $70k adjustment based on the company's shortfall in 2002 actuals versus forecast. ORA applied the percentage 2002 underrun to SDG&E's 2004 forecast. We adopt this adjustment, as it reflects SDG&E's actual performance, and SDG&E has not demonstrated why 2002 performance is no indicative of 2004 expeditions.

E. SDG&E Account 930A - Administration Costs for Rate Reduction Bonds

SDG&E stated that it concurs with UCAN's recommendation to remove $1,110,000 in base year 2001 administrative fees and expenses associated with Rate Reduction Bonds, which was inadvertently included in base year 2001 in Account 930. The adjustment amount was not included in the September 19 errata. (Ex. 120, p. PJF-3.) No controversy remains however, and SDG&E made this adjustment to the end-of-litigation results of operations for Test Year 2004.

F. SoCalGas Account 935 - Real Estate & Facilities Expense

Only TURN raised an issue, maintenance costs for the Pico Rivera chiller maintenance expenses. The issue was not briefed, Ex. 149, the Comparison Exhibit, does not quantify it, and we will consider the issue as withdrawn.

XXVI. SoCalGas and SDG&E - Income and Other Taxes

SoCalGas and SDG&E entered into stipulations with ORA and TURN resolving all issues about the correct method to compute the tax expense allowances for Test Year 2004.[423] UCAN supported the stipulation in its opening litigation brief. Therefore, we will calculate all taxes, based on the adjustments adopted in this decision on capital and expense items, by otherwise using the embedded calculation method in SoCalGas and SDG&E's end-of-litigation summary of earnings spreadsheets.

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[423] Ex. 144 and Ex. 145 for SoCalGas and SDG&E, respectively, and transcript, beginning at p. 2,208.

XXVII. SDG&E Electric Department Operations & Maintenance Expense

A. SDG&E Nuclear Operations & Maintenance Expense

In Ex. 302, ORA presented its position on SDG&E's share of shared costs for SONGS that were litigated in total in the Edison general rate case, A.02-05-004 and in this decision we will rely on D.04-07-022 in that proceeding.

B. SDG&E Account 556 - System Control & Load Dispatch

SDG&E requested $1.858 million in Test Year 2004 to fund the operations of load dispatching as a part of the electric system control process. SDG&E asked for an increase to fund two senior traders and five senior analysts. SDG&E identified new duties including the administration of the California Department of Water Resources (DWR) electricity contracts that have been allocated to the company, following the failure of the AB 1890 electric restructuring process.

ORA proposed to reduce the number of new employees by one in both classifications for a savings of $0.152 million. It did not explain how it determined this number but did note than it still allowed for an increase.

In the April 2, 2003 Scoping memo, the Assigned Commissioner highlighted as an important issue and SoCalGas and SDG&E were directed to file supplemental testimony to answer (among other questions):

> "Do SoCalGas and SDG&E have adequate organizations to plan for and meet future natural gas and electric resource procurement and distribution needs? Describe the staff qualifications and resources necessary for them to meet the procurement requirement."

ORA's project manager for SDG&E testified that ORA did not assign staff to review these questions. In response to cross-examination, (Transcript, p. 398)

SDG&E's witness testified that the proposed procurement organization – gas and electric - was the company's best estimate on a ground-up basis to meet the procurement needs in the near term. In order to support its efforts to properly plan for its resource needs.

We will adopt SDG&E's estimate for the test year. We expect ORA to carefully examine organizational structure as a part of its review in the next rate proceedings for SDG&E (and SoCalGas).

C. SDG&E Account 557 - Purchase Power

ORA proposes a reduction of two analysts each in two new departments, for the Procurement Planning and the Resource Planning Departments that SDG&E justified as needed to reduce its reliance on consultants. Again, as in Account 556, we have no detailed analysis or recommendations from ORA other than a generalized reduction from five to three staff in both departments. We will not accept cuts. SDG&E also seeks $0.450 million for consulting costs, which it indicates is a new cost since the 2001 base year, before there were the two new planning departments. SDG&E argued that consultants, if used correctly, can save costs over full-time staff. We will allow the consulting costs. We expect the new departments to become more proficient and need less consulting support.

D. SDG&E Account 580 - Operation Supervision & Engineering

ORA proposed several reductions for several program related costs for an Electric Geographic Information System, an Outage Management System (a combined $458,000), and the Performance Support project ($150,000 reduction). It justified the reduction citing a delay in project schedules and lack of supporting justification for the Performance Support project.[424] In rebuttal, SDG&E said that "(n)o approved change in the schedule … has been made" for the Electric Geographic Information System project, and we assume SDG&E is not ignoring a real delay. We accept SDG&E's application so we will fund this project.[425] SDG&E argues the Performance Support positions are needed to meet the needs for increased training and apprentice follow-up training, to replace temporary and intermittent trainers, and to oversee the design and development of training curricula. We will not reduce this request.

ORA proposed that SDG&E did not need the four New Business Construction Manager positions that would implement new Title 24 building standards, promulgated by the California Energy Commission, which will be effective in 2005. The Proposed Settlement Agreement (Ex. 150, p. 61) eliminates these positions, even though in rebuttal SDG&E argued the positions were needed to interact with homebuilders and the building industry in advance of the effective date, as well as perform other duties.[426] We will adopt the ORA adjustment as we agree that; the positions are unlikely to be critical before 2005. We will reduce Test Year 2004 Account 580 by the $174,000 proposed by ORA.

A final proposal would reduce Account 580 by $448,000 that ORA said is consistent with eliminating other positions in other various electric distribution accounts. SDG&E vigorously defended the need for these positions: "These

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[424] Ex. 302, p. 7-4, ORA does not otherwise address the validity of the programs, their scope or estimated cost.

[425] Ex. 75, p. DLG-26.

[426] Ex. 75, p. DLG-27.

staffing additions are not bureaucratic 'overheads' so frequently thought of as accountants and legal staff, but are field supervisory personnel."[427] We will not make this adjustment; based on the level of staff adopted in this decision the supervisory positions are needed.[428]

E. SDG&E Account 581 - Load Dispatch

ORA proposed an adjustment to this account that would allow for six additional apprentices and training six, rather than the eight apprentices requested by SDG&E. It said it "recognizes the need for additional staff and training …(but the justification) …submitted for the eight apprentices proposed by SDG&E is insufficient." SDG&E is only seeking to hire six switch center operator apprentices at a time. However, training for each apprentice takes 18 months. The company demonstrated the resulting overlap in the training of the annual apprentice classes results in 96 student training months per year, the equivalent of training eight students per year. This a reasonable explanation for the apparent discrepancy. We will adopt SDG&E's estimate of $1.544 million

F. SDG&E Account 582 - Station Expense

In an account where SDG&E requested $4.202 million, ORA proposed a disallowance of $0.050 million for overtime on two contract security crews because of assumed savings from remote monitoring. We fail to see how this recommendation was derived and we will not make an adjustment. We will adopt $4.202 million for Test Year 2004.

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[427] Ex. 75, p. DLG-27.

[428] Ex. 302, p. 7-5. By adopting the applicant's proposal, the Commission does not find that field supervisors are inherently more valuable than accountants or attorneys, only that in this narrow instance, the field supervisors' positions are justified.

G. SDG&E Account 584 - Underground Line Expense

SDG&E requested a $0.468 million increase over the Base Year 2001 for underground facilities - this account deals with the inspection, testing, and other routine operations of underground lines – and SDG&E used a 4.26% per year rate of increase. ORA proposed to use an uncompounded flat rate of 10% for the same period (2001-2004), reducing the increase by $0.080 million and stated the annual 4.26% was "not justified by historical numbers" but ORA offered no rational basis for a flat 10% (it did not assert 10% to be the actual historical multi-year effective rate for example) nor did it say why we should consider non historical annual rates relevant to the forecast.

ORA made a second disallowance proposal to reduce by $0.085 million the forecast for the number of instances where SDG&E must resolve a system encroachment on private property. ORA used an average of 170 instances but did not identify the basis of this "average" and an undefined estimate of $500 cost per encroachment investigation. SDG&E rebutted that recent numbers were higher than ORA's forecast.

We adopt SDG&E's estimates[429] that reasonably used the historical annual rate 4.65% for growth. We also accept SDG&E's estimate for encroachments based on its historical range of costs.

H. SDG&E Account 588 - Miscellaneous Distribution Expenses

In Account 580, we declined to make an adjustment for apprentice follow-up training and we also decline here to make a related decrease of $0.200 million.

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[429] Ex. 27, pp. DG-71 and DLG-72.

There are two other adjustments with no explanation or justification to eliminate a training coordinator and to reduce per-student materials costs from $5,000 each to $1,000 each. ORA offered no reason (Ex. 302, pp. 7-10), and we adopt the applicant's full estimate of $5.492 million.

ORA proposed another "one-time" expense adjustment of $0.074 million for information technology related expenses also forecast in Account 588. As we have indicated before, eliminating "one-time only" expenses is reasonable if the items are unique, nonrecurring, and are not simply an ongoing stream of minor expenses each year. The point of a miscellaneous account is to record and provide for items that are too small or numerous to be specified; i.e., miscellaneous items. We will adopt $9.528 million for Test Year 2004.

I. SDG&E Account 590 - Maintenance Supervision – Engineering

ORA proposed a $0.206 million reduction to training for Customer Project Planners by reducing the number of students, reducing the number of instructors and increasing class sizes. This position is stated to be "consistent with customer growth" but no analysis is cited in the testimony to prove the connection.[430] SDG&E argued the growth in capital expenditures – which this decision adopted, on the whole – and normal attrition justifies the numbers of students and teachers. Considering the SoCalGas and SDG&E assertion regarding maturing workforce replacements that it takes 15 years to be as proficient as current employees,[431] we are reluctant to reduce training. More realistically, we

[430] Ex. 302, pp. 7-12.

[431] Transcript, p. 309, lines 8-12. We do not find this assertion credible.

accept SDG&E's specific position that the number of students and instructors, with smaller class sizes is reasonable. Including all other activities, as well as training, we adopt $1.110 million for test year 2004.

J. SDG&E Account 593 - Maintenance of Overhead Lines

1. Vegetation Management

One of the expenses in this account is tree trimming; D.98-12-038 (83 CPUC 2d, 363) established a one-way balancing account (under-spending is refunded but over-spending is absorbed by SDG&E) in part because it was an unresolved item in a settlement. SDG&E asked for $23.715 million for vegetation management (tree trimming), an increase of $8.381 million over the base year 2001 actual cost of $15.334 million.[432] SDG&E also proposed to end the balancing account and argued that it has made a myriad of improvements. But it still faces drought and pests, and fires, etc. By Resolution E-3824, SDG&E and other utilities were directed to respond to then-Governor Davis' March 7, 2003 Emergency Proclamation to deal with the impacts of the pine bark beetle infestation. SDG&E cites this as an example of how even after the company filed its application and Ex. 27, "SDG&E anticipates the level of these "risk" trees to be far greater than originally determined, exceeding $3 million in 2003 alone."[433] Resolution E-3824 does allow SDG&E to utilize a catastrophic event memorandum account for Bark Beetles, so there is a vehicle for recovering all reasonable actual costs.

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[432] Ex. 27, p. DLG-99.

[433] Ex. 75, p. DLG-45

ORA proposed $3.537 million less in Test Year 2004. It proposed to retain the balancing account and explains how, considering the achieved reductions in per-tree costs, it believes the estimate could be lowered.[434] UCAN is concerned that SDG&E should consider tree replacement instead of trimming – by planting trees that would not require as much or as frequent trimming – and we agree that we do not have any analysis on record. We will adopt UCAN's recommendation and direct SDG&E must to provide a competent and detailed analysis in its next rate proceeding that considers tree and other vegetation replacement alternatives.[435]

Vegetation management is a major expense; it is a major expense subject to significant potential crises: fire, flood, pests and drought. We find it unreasonable in the face of a proposed increase of $8.381 million over recent actual expenditures to eliminate the balancing account – which would refund any savings over a cautious high-budget – and we are reluctant to reduce the estimate for such a literally volatile program. We adopt, subject to the continued usage of the one-way balancing account, SDG&E's full request of $23.715 million for vegetation management in Test year 2004.

2. General Order 165 Inspections - Mapping

SDG&E indicated that it currently lacks location information on individual streetlights, and as a part of General Order 165 it is required to inspect these facilities, making location information useful to have. We agree. ORA proposed to spread the cost over three years (Ex. 302, p. 7-16) but SDG&E is eager to be in

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[434] Ex. 302, p. 7-17 and 7-15.

[435] UCAN opening litigation brief, p. 80.

compliance and wants to do the task in one year.[436] We think this is one example where, given that rates will be in effect for several years (applicants seek five), SDG&E can do the work in one year and ORA would be reasonable in recommending allocating the cost over three years' rates. This is a large enough amount of money and SDG&E has the discretion of when to perform the task; if it is now trying to comply with General Order 165 we will not unduly rush it. We therefore amortize the costs over three years.

3. Other Adjustments

ORA wanted to reduce the number of maintenance inspectors ($0.042 million)[437] which we decline to do, due to lack of justification for the change, and there are two other corrections or adjustments for $0.185 million accepted by SDG&E but not reflected in the Joint Comparison Exhibit, Ex. 150. We will adopt these last two items as requested by SDG&E and adopt for Test Year 2004, $30.010 million.[438]

K. SDG&E Account 594 - Maintenance of Underground Lines

This account includes $1.6 million O&M related to the Sustainable Community Program, which we rejected in our discussion of above. Since we have directed SDG&E to reconsider this program and resubmit a more detailed proposdal in a separte application, we will deny this O&M Request.

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[436] Ex. 75, p. DLG-49.

[437] Ex. 75, p. DLG-44, (ORA did not quantify the amount in Ex. 302).

[438] Ex. 150, p. 70; SDG&E request of $30.195 million for Account 593 less $0.185 million.

ORA also proposed an adjustment of $104,000 using the same flat rate growth factor, which we rejected in Account 584, and we reject it here, too.

Other than the adjustment above, we find the estimates[439] to be reasonable. Therefore, we adopt $4,975 million of SDG&E's Test Year 2004 estimate of $6.575 million.

L. SDG&E Account 870 - Operating Supervision and Engineering

ORA recommended a total of $0.258 million in three adjustments to SDG&E's estimated $2.955 million. First, ORA proposed a $0.093 million adjustment to expenses that SDG&E attributed to "stricter" environmental regulation by local jurisdictions. SDG&E conceded in rebuttal[440] that it cannot track these asserted changes, and we will adopt ORA's adjustment absent evidence to support the stricter behavior.

ORA proposed a disallowance of $0.107 million for all three new positions for New Business Managers to comply with the Energy Commission's new energy efficiency requirements beginning in 2005.[441] SDG&E argued that they need the staff to be prepared in 2004 to deal with builders ahead of 2005 construction. This is a reasonable argument and we will adopt SDG&E's estimate.

ORA proposed another adjustment of $0.058 million related to less supervision required based on a reduced customer growth and also its

[439] Ex. 27, pp. DLG-112 and 113, and Ex. 75, pp. DLG-52 and DLG-53.

[440] Ex. 98, p. RDP-8.

[441] Title 24, § 6, cited in Ex. 302, p. 8-6.

recommendation on fumigation turn-off/turn-on gas meter service. As discussed below, we adopt the fumigation related estimates for SDG&E.

M. SDG&E Account 880 - Other Expenses

We adopted the ORA adjustment to gas distribution capital expenditures for the delay in the geographic information system; therefore, we will also adopt ORA's related adjustment for training expenses of $0.041 million and $0.083 million for contract services related to the geographic information system.[442]

N. SDG&E Account 887 - Mains

ORA proposed an adjustment for SDG&E's alleged stricter permitting requirements and we consistently rejected applicants' testimony as lacking in specific details, so we will adopt ORA's $0.130 million adjustment here. We also rejected applicants' blanket arguments about maturing work force issues requiring more employees to replace retiring employees and so we adopt ORA's $0.075 million adjustment here for cathodic protection electricians. We have not accepted ORA's other rate of system growth adjustments so we reject the proposed $0.064 million. For Test Year 2004, we will allow $1.525 million ($1.730 million minus $0.130 million and $0.075 million).

O. SDG&E Account 892 - Services

As discussed in Section ___, we will adopt ORA's disallowance of $0.019 million for stricter permitting related costs consistent with Account 870. We adopt $0.882 for Test Year 2004.

[442] Ex. 302, 8-7, and Ex. 150, p. 73.

P. SDG&E Account 586 - Electric Meter Testers

SDG&E requested a significant increase in apprentices in anticipation of increasing retirements. ORA proposed to allow funding for the 2002 employment level[443]. This would result in a reduction of $0.947 million for Test Year 2004.

SDG&E asserts, and we agree, that the company has clearly established the need for conducting three apprentice classes in 2004. As of August 2003, eight of the 27 employees who had been in these classifications during 2001 were no longer in those positions, including three who had left the company entirely. By the end of 2004, 14 of the 23 remaining employees will be 55 years of age or older, and thus eligible for retirement. SDG&E sees a need for apprentice classes graduating in 2006 –2007 in order to anticipate retirements. We adopt $5.02 million for Test Year 2004.

ORA also proposed a reduction – that also affects accounts 878 an 879 – to the SDG&E forecast for field orders. SDG&E developed its initial forecasts using a five-year average for 44 different order groups (different reasons for a customer service request) that establish an expected number of requests per 1,000 active meters, and then multiplied those factors by the 2004 meter forecast to ultimately project costs. ORA used the 2001 actual data for seven categories where there was a declining trend. SDG&E objects to this selective use of actual 2001, suggesting that there is something suspicious about only using 2001 costs when they lead to reduced forecasts.

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[443] Ex. 302, pp. 9-4 and 9-5.

ORA does not apologize for eschewing five-year averages in instances where revenue requirement reductions may result, arguing that reduced costs reflect productivity gains that should be captured in Test Year ratemaking. We agree with ORA that we should be looking for ways to capture productivity gains. Indeed, that is one of the main reasons to undertake Test Year ratemaking and a multi-year ratecase cycle. However, as SDG&E points out, the forecasts, here, relate to the number of requests the company expects to receive to shut off or turn on electric/gas service. There is no clear relationship between utility worker productivity and the number of such calls. As SDG&E points out, annual fluctuations are more likely to reflect the ups and downs of population movement. For these reasons, in this instance, we will not adopt ORA's suggested deviation from a five-year average approach.

For similar reasons, we will not adopt UCAN's proposed further disallowance of $0.232 million beyond ORA's: first, $0.271 million for a lower field order estimate, and second, $0.052 million for automatic meter reading. UCAN makes a valid point when it suggests that the increased use of pilotless furnaces should reduce the number of pilot relighting requests. SDG&E concedes this point. However, the company points out that pilot relight visits provide the opportunity to perform a furnace system maintenance and safety check of the furnace filters, burners, and ventilation system. SDG&E pledges to respond to the increased use of pilotless furnaces by more aggressively communicating to its customers the importance of an annual safety check, which SDG&E provides at no additional charge. We will refrain from making the comparatively small adjustment sought by UCAN, in this instance, in the hopes that doing so will reinforce the company's effort to provide more safety-related service. In the next GRC, we look forward to the company's report on what it has been able to accomplish, in this regard.

Q. SDG&E Account 878 - Relocation of Gas Meters and Regulators

We rejected the ORA adjustment in Account 586 to the forecast of field orders, and we decline to make the related adjustment here. We adopt SDG&E's estimate of $2.602 million.

R. SDG&E Account 879 - Gas Customer Installation Expenses

We rejected the ORA adjustment in Account 586 to the forecast of field orders, and we decline to make the related adjustment here.

ORA also proposed a one-way balancing account for fumigation related work orders to shut-off and restart service. As already discussed, we decline to place the burden solely on SDG&E (or SoCalGas) and we will not impose a one-way balancing account.

For Test Year 2004, we adopt $9.1 million.

S. SDG&E Account 910 - Miscellaneous Customer Service and Informational Expenses

SDG&E asked for a significant funding increase in Account 910 and for various eServices, primarily for creating, licensing, maintaining and operating online applications that will provide numerous customer services including more multilingual information.[444] Customer service and information a vital part of SDG&E's service obligation and, consistent with our discussion of SoCalGas' Account 908, we find that these programs must be funded and properly implemented. SDG&E has proposed a broad expansion and we expect it to follow through so that in the next proceeding SDG&E can illustrate tangible customer benefits from having these programs in place.

ORA proposed a $1.748 million adjustment to the 2001 Base Year by using a five-year average of 1997-2001. An average drags down the effect of a rising cost trend, or delays the effect of a declining trend. ORA did not offer any reasoning or justification for using the average method. Any adjustment that does not have a plausible explanation and convincing justification.[445] We need to know why the base year is not a reliable indicator.

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[444] Ex. 30, pp, EF-109 through EF-125

[445] Ex. 302, p. 9-26 and Table 9-13; base Year $3,947,000 less ORA's average $2,199,000.

Two differences cited in the Joint Comparison Exhibit are reductions by SDG&E to the base year for $1.199 million (reducing communication expenses for the energy crisis) and $0.131 million (discontinuing a survey),[446] adjustments that we will include in Account 910.

SDG&E requested an additional $1.350 million for expanded eServices. We found the SoCalGas issues in Account 908, where eServices are included, to be too muddled to resolve the litigation positions and we resorted to the Partial Settlement's compromise. ORA proposed a 50% reduction suggesting a lack of justification for the amount of the increase. ORA did not tell us what was lacking to justify the whole amount or what convinced it that an increase of $675,000 was justified. UCAN raised an issue of the credibility of the eServices testimony for SoCalGas and SDG&E arguing various inconsistencies.[447] SDG&E did not argue the issue in its Opening Litigation Brief. UCAN argued the project was still in planning stages and SDG&E had not met the burden of proof. UCAN would disallow 100%, not 50%.[448] We will not adopt the 50% ORA allowance because we expect eServices to be an important tool to easily and affordably reach customers and improve communications. We do not agree with UCAN that a project in planning is necessarily deficient in its justification for inclusion in the test year. We find SDG&E's forecast to be reasonable and we adopt the end-of-litigation estimate of $7.134 million.

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[446] Ex. 150, p. 90.

[447] UCAN opening litigation brief, pp. 155-157.

[448] Ex. 603, p. 14.

XXVIII. ORA's Historical Review

ORA submitted as Ex. 300 the *Results of Examination Report for Southern California Gas Company and San Diego Gas & Electric Company* that was described as a "review of historic results of operations financial information" that included "applying analytical procedures to financial data." This was not an audit and it was not conducted with the intention of expressing an opinion on the financial statements. The information in this report was available to inform other ORA and intervenor witnesses during the development of their test year recommendations. This decision will address three issues that were not otherwise subsumed in the test year forecasts by ORA.

A. Gain on Sale of Blythe Property

In 2001, SDG&E sold property for a before tax gain of $22 million that at one time had been accounted for in Plant Held for Future Use, which is a rate base account. This land was acquired in 1975 for the Sundesert Nuclear Generating Station, a facility that was never constructed. There is a long history of the proposed plant, its subsequent abandonment and the ratemaking treatment for many of its costs. Some site-related costs were amortized (recovered) in rates and the balance was in rate base for Future Use until 1984 when a portion of the remaining balance was also amortized and a residual amount, $19.5 million, was removed from rate base. ORA summarized this as "ratepayers have paid: (1) the $45 million of non-site-related costs pursuant to D.90405, (2) the $25.5 million of site-related costs amortized pursuant to D.84-04-041, and (3) a return on a ratebase (sic) of $45 million for the period

1979-1984."[449] ORA proposed that the gain should be re-allocated (more to ratepayers) and amortized as Miscellaneous Revenues over five-years. ORA re-weighted the allocation based on what it termed "risk exposure." (Ex. 300, p. 2-4.)

SDG&E sold the property in 2001 and allocated the gain between ratepayers and shareholders in proportion to the time the property was in rate base (June 1979 to April 1984) and the time that it was not (April 1984 to November 2001). SDG&E recorded the ratepayer share, as calculated by its method, in its Transition Cost Balancing Account.[450] SDG&E cited D.83-12-065 as apposite; it dealt with a property that was a potential power plant site and the Commission allocated a subsequent gain on a shared basis of the time the property was included and then excluded from rate base.[451]

We disagree with ORA that prior Commission-approved cost recovery is relevant to the disposition of the gain on the remaining asset. The earlier decisions found certain costs were reasonably recoverable from the ratepayers and we will not revisit those costs to use them for allocating the gain on the residual property. We will not make ORA's proposed adjustment. We agree with SDG&E's allocation method because it is consistent with the treatment accorded another abandoned power plant project. We see no reason to depart from SDG&E's use of the Transition Cost Balancing Account; it promptly returns a share of the gain to ratepayers.

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[449] Ex. 300, pp. 2-3 and 2-3; and ORA's opening litigation brief, pp. 258-260.

[450] Sempra opening litigation brief, pp. 315-318, and Ex. 104.

[451] Ex. 104, p. LS-1 and fn. 1.

B. Independent Audit Fees

ORA proposed an adjustment to the fees for Sempra's independent auditor because SoCalGas and SDG&E restricted ORA's access to five categories of work papers. ORA determined that there were 21 binders of work papers for 2001 and 2002, and that it was denied access to 11. If ORA had raised the issue of denied access we would address it; but ORA did not. Instead, ORA proposed in Ex. 300 to reduce the test year expense by one-half to reflect the restriction in access. We will not do so; ORA did not show that the allocation of audit fees to SoCalGas and SDG&E was even remotely based on the size of the work papers. The fees should be allocated based on the proportion of time spent auditing utility and non-utility business activities and an appropriate allocation of corporate audit costs. This decision in no way endorses the restriction of access unilaterally imposed by SoCalGas and SDG&E. ORA must have access to all business records, including auditor work papers, to the maximum extent allowed by the Public Utilities Code and as described in many other Commission decisions.

C. Reconciliation of Base Year 2001

There is no doubt from the record that ORA experienced some difficulty in reconciling the recorded results for the Base Year 2001 to the "Restated" Base Year 2001. SoCalGas and SDG&E shifted costs between accounts to reflect the Test Year 2004 organization of accounts and responsibility for those accounts. We addressed this in part with the Corporate Center; ORA focused on the allocation to the detriment of examining the functions themselves. UCAN, by contrast, correctly honed in on critiquing the function.

We will order SoCalGas and SDG&E to file in accordance with the rate case processing plan, and we restore the NOI and Deficiency process; therefore we expect ORA, TURN and UCAN to identify reconciliation issues before the application is filed and we expect SoCalGas and SDG&E to rigorously avoid if possible, or otherwise thoroughly document, any "restatement" of the next Base Year. We will consider the adequacy of any restatement explanation when we determine whether SoCalGas and SDG&E have met their burden of proof in the next proceeding.

XXIX. Electric Rate Design – SDG&E

On April 22, 2004, the Commission adopted D.04-04-042,[452] a decision that approved a contested settlement agreement and resolved most of the disputed issues among SDG&E and all but one of the other active parties in SDG&E's 2003 Rate Design Window proceeding. It was ordered that when this decision is issued for A.02-12-028, the Test Year 2004 Cost of Service proceeding, SDG&E is to allocate its 2004 electric distribution revenue requirement based on an equal percentage of marginal cost methodology, using caps and floors designed to moderate increases that would otherwise disproportionately impact residential and street lighting customers. SDG&E was also ordered in D.04-04-042 to accommodate the provisions of Assembly Bill 1X by applying the residential class revenue requirement allocation in a manner consistent with the Commission's determination in D.04-02-057, its Final Opinion on Phase 2 Issues in R.01-05-047.[453]

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[452] A.03-03-029, filed March 17, 2003.

[453] D.04-04-042, Conclusions of Law 7 and 8, and Ordering Paragraph 2; mimeo., pp. 18 and 19.

XXX. Comments on Alternate Decision

The alternate decision of Commissioner Carl Wood in this matter was mailed to the parties in accordance with Pub. Util. Code § 311(d) and Rule 77.1 of the Rules of Practice and Procedure. Comments were filed on ____________________, and reply comments were filed on ________________.

XXXI. Assignment of Proceeding

Carl W. Wood is the Assigned Commissioner and Douglas Long is the assigned Administrative Law Judge in this proceeding.

Findings of Fact

1. As in any ratesetting proceeding, the Commission's primary task is to forecast reasonable revenue requirements for the test period, i.e., the amounts of revenues needed by SoCalGas and SDG&E to provide safe and reliable public utility service and earn a reasonable rate of return for 2004 under conditions of prudent management.

2. The management and planning for the operations of SoCalGas and SDG&E is primarily conducted by a single organization, with many of these tasks performed by one company for the benefit of both.

3. These applications were not filed in conformance with the rate case processing plan; they were filed in compliance with D.97-12-041 (77 CPUC 2d, 139) that allowed SoCalGas and SDG&E to file a "cost of service" application. ORA, TURN and UCAN did not have an opportunity under the process for these applications to review a NOI of the applications for deficiencies.

4. The conventional rate case processing plan would have provided ORA an opportunity to review the applications for deficiencies and expedite litigation. TURN and UCAN performed significant analysis in these proceedings and their effectiveness would benefit from participating in an NOI process for the next

general rate case. By reinstating the rate case-processing plan, we can ensure that the applications receive an appropriate level of review and are processed in a timely and efficient manner.

5. Parties filed a Partial Settlement for both SoCalGas and SDG&E. Neither Partial Settlement resolved all matters. Neither Partial Settlement provided sufficient detail to ensure SoCalGas and SDG&E meet the Commission's expectations for service and capital expenditures.

6. Neither Partial Settlement determined a reasonable number of employees – full-time employee equivalent positions – to justify the labor compensation and benefits expense included in the settlements' rates.

7. Neither Partial Settlement justified why they differ in scope and scale of the work or task from the applicants' end-of-litigation positions.

8. Only TURN and ORA actively litigated the majority of the SoCalGas 2004 Test Year issues and the major portion of the costs recoverable in the revenue requirement.

9. Only UCAN and ORA actively litigated the majority of the SDG&E 2004 Test Year issues and the major portion of the costs recoverable in the revenue requirement.

10. The partial settlements lack specificity and merit only limited weight.

11. The Greenlining Settlements with SoCalGas and SDG&E make four commitments on workforce diversity, supplier diversity, philanthropy and annual meetings.

12. Although the Commission supports the goal of workforce diversity, the Commission has no jurisdiction over work force diversity within SoCalGas and SDG&E.

13. Supplier diversity obligations are established in GO 156 and are otherwise beyond the scope of this ratesetting proceeding.

14. Corporate philanthropy is not a cost recoverable in retail rates.

15. Both SoCalGas and SDG&E, identified a Base Year 2001 of recorded data was and then adjusted for known downward changes for one-time or non-recurring expenses; companies then escalated the residual Base Year was added to the adjusted base year for inflation in 2002, 2003 and Test Year 2004. SoCalGas and SDG&E proposed or known changes for 2002, 2003 and Test Year, 2004. . The SoCalGas and SDG&E forecast method is similar to a "budget-based" methodology that the Commission found to be a reasonable method if properly applied.

16. A utility's budget-based forecast may be more or less reliable than a forecast based on historical spending data. The relative appropriateness of a forecasting method depends on a thorough review of the supporting data.

17. The Joint Comparison Exhibits, Ex. 149 and Ex. 150, for both SoCalGas and SDG&E, respectively, adequately summarize the end-of-litigation agreements on estimates between the applicants and the intervenors.

18. ORA and SoCalGas and SDG&E used the same labor escalation forecast indices from Global Insight, but ORA used a more recent index from the first quarter of 2003.

19. SoCalGas and SDG&E actual labor costs are consistent with the earlier indices they used in forecasting Test Year 2004.

20. The applicants and ORA agreed on the non-labor escalation rates.

21. The applicants and ORA agreed on capital expenditure escalation rates.

22. ORA and applicants jointly prepared a total compensation study. Employee compensation is within a 2.8% range for SoCalGas and a 0.5% range

for SDG&E of the studies' "market prices." Employee compensation is at market prices for the service territories for SoCalGas and SDG&E.

23. SoCalGas and SDG&E compensate many employees using combinations of base salaries and incentives that combine to equal market prices.

24. There is no evidence in the record that SoCalGas and SDG&E unfairly evaluate or compensate employees. SoCalGas and SDG&E forecast all incentive compensation "at target" levels, which assumes all eligible employees are awarded or earn the target amount.

25. There is no evidence in the record that supports the conclusion all employees will earn target levels or that actual incentives will equal the forecast target total. Disallowance of stock incentive components would put compensation for those employees below market rates.

26. Both shareholders and ratepayers benefit from good employee performance

27. There is no agreement outside of the partial settlements on the number of positions needed or likely to be filled in the test year for either SoCalGas or SDG&E. SoCalGas and SDG&E do not need the labor forecast funding in retail rates if the position is not filled. The partial settlements make no commitment to employ people for the funded positions. TURN cannot support its generic vacancy disallowance.

28. A maturing workforce is not a new issue as argued by SoCalGas and SDG&E: it has been considered before in SDG&E's 1991 rate proceeding.

29. SoCalGas and SDG&E have minimum required contributions as required by the IRS Code Section 412 (Minimum Funding Standards) as amended by the Employee Retirement Income Security Act of 1974 (ERISA-minimum

contributions). SoCalGas and SDG&E proposed balancing account treatment for recovery of any actual pension contributions.

30. Conversion to a cash benefit plan has a lower cost compared to retaining the old plan.

31. ORA did not examine the pension fund allocation after the reorganization of company operations after the merger and between regulated and non-regulated affiliates. The pension costs of Corporate Center employees are recoverable costs.

32. The supplemental pension expenses are necessary market rate compensation.

33. A pension expense balancing account will reasonably protect ratepayers from paying for costs not incurred.

34. SoCalGas and SDG&E have negotiated new contracts for medical benefits. The number of employees and their eligible dependents drives the cost of medical benefits. ORA did not demonstrate that the new health care rates were a recovery of deferred prior years' costs.

35. TURN incorrectly linked medical costs to labor costs and not the number of employees and dependents. This cost cannot be accurately forecast.

36. SoCalGas and SDG&E made reasonable forecasts of medical expenses based upon provider premiums.

37. SoCalGas and SDG&E should recover the actual costs of medical expenses in a two-way balancing account.

38. Dental and vision benefit costs, as forecast by SoCalGas and SDG&E at the end of litigation, reflect later contracts and are reasonable.

39. ORA did not support its proposed miscellaneous adjustments to employee benefits. ORA could demonstrate no ratepayer harm from employee benefits

that it described as supererogatory. The forecasts for miscellaneous and any so-called supererogatory expenses are reasonable.

40. TURN argued that SoCalGas' workers' compensation expense should be adjusted to reflect employee totals. But SoCalGas and SDG&E are self-insured, so that there are no payroll-based premiums.

41. We have no record to support adjustments to the SoCalGas and SDG&E forecasts of expense and reserve requirements for workers' compensation.

42. A memorandum account would track the difference between the adopted forecast and actual expense and reserve contributions for workers' compensation.

43. Any excess forecast in the memorandum account should offset the expense in the next rate proceeding.

44. The adopted forecasts for SoCalGas and SDG&E are an upper cap on cost recovery.

45. Rate base is a regulatory mechanism to recover over a long time the investment in the plant and facilities necessary to provide safe and reliable service to ratepayers.

46. Capitalizing certain costs allows recovery over the investment's useful life. It is convenient to expense certain minor items rather than burden the ratemaking process to recover those costs over a long period.

47. SoCalGas and SDG&E had different capitalization policies for small items; $500 for SoCalGas and $2,500 for SDG&E. Increasing the capitalization requirement results in a higher revenue requirement, at least in the short term.

48. SoCalGas and SDG&E did not change the requirements for authorizing purchases when they raised the expense limit before capitalizing a purchase.

49. SoCalGas proposed a pipeline integrity project to retrofit 110 miles of gas transmission for $32,820,000, including valves, verification digs and pig inspections.

50. Although ORA stated that it used ORA's recorded data for earlier retrofitting on SoCalGas *Line 3007*, e.g., ORA's estimate is incomplete and inaccurate compared to SoCalGas' estimate.

51. TURN's proposed non-pigging options were not convincing.

52. TURN's proposed blanket adjustment was based on one delayed project and relied on work papers not in evidence.

53. SoCalGas' $32,820,000 estimate for the pipeline Integrity Project is reasonable based on the record.

54. ORA proposed to reduce laboratory equipment purchases by relying on a two-year average. This is too low to include a new FTIR analyzer and/or a new electron microscope as forecast by SoCalGas. ORA failed to address whether this equipment is needed or not.

55. Budget Category 718 is reasonable, based on the record.

56. ORA corrected the weighting in rate base to reflect the likely in-service date for SoCalGas' Software Development Budget Category 723.

57. Only the mandatory program costs for SoCalGas' Natural Gas Vehicle Project (Category 734) are within the scope of this proceeding. They are correctly reflected in the SoCalGas end-of-litigation revenue requirement spreadsheets.

58. SoCalGas developed a detailed estimate for New Business and Pressure Betterment plant expenditures whereas ORA used an historical trend.

59. SoCalGas has pre-1947 pipeline in place that is cathodically unprotected, i.e., it is subject to corrosion. SoCalGas provided detailed cost estimates

supporting a rate $278,900 per mile. ORA relied on a seven-year average rate of $205,997 per mile.

60. It is reasonable however to require SoCalGas to replace the amount of pipeline forecast in exchange for including the forecast in rates.

61. SoCalGas provided specific details for routine service replacement. Accurate records will demonstrate that SoCalGas replaced a significant amount of service connections consistent with the funding provided in rates.

62. SoCalGas must move its facilities at the request of the CalTrans or local agencies (Franchises) when either of these two is making their own infrastructure changes. SoCalGas could not support its franchise capital expenditure estimate except for known projects.

63. TURN showed that SoCalGas did not consider the budget reductions affecting CalTrans. ORA's estimate is more reliable and based on the likely identifiable projects for the test year.

64. ORA made a more likely detailed forecast than SoCalGas for replacing regulator stations.

65. ORA used 2001 actual expenses a forecast for cathodic protection whereas SoCalGas made a reasonable detailed forecast. SoCalGas has already made the easier retrofits.

66. SoCalGas forecast extensive replacement or abandonment of mainly older, pre-1931 mains installations based on an engineering survey for those facilities that are more susceptible to earthquake damage due to inferior welding. SoCalGas demonstrated that the detailed costs for eight likely projects exceed ORA's simple trend of mains replacement.

67. ORA used a seven-year average rather than the rate of new business, which under funds GEM meter replacement. ORA allocated GEM replacement

costs to individual non-core customers and excluded the cost from revenue requirements. ORA would unreasonably require customers to make a second individual contribution for a replacement. The applicant's proposal is reasonable.

68. Any cost allocation of replacement GEMs should occur in the BCAP.

69. SoCalGas established that the Rockwell and Tin meters leak excessively. ORA proposed a five-year average rate to replace leaky meters, which does not account for the inability to determine which meters leak. ORA's forecast would leave too many dangerous meters in place. SoCalGas' meter replacement forecast is reasonable.

70. The $5.522 million for Test Year 2004 to replace Distribution Operations Maintenance and Inspection systems with new technology to automate field order and data capture processes is necessary for compliance with Federal Department of Transportation as well as Commission regulations.

71. SoCalGas did not justify a further $1.1 million in 2004 for a Windows 2000 Active Directory Services Project completed in 2003.

72. A reasonable replacement cycle for personal computers including laptop computers is four years.

73. TURN demonstrated that computer costs are highly variable and subject to decline over time. TURN's newer estimated costs will allow SoCalGas and SDG&E to replace computers with technology adequate for the applicants' specifications.

74. SoCalGas and SDG&E should buy the best equipment available with the funding provided in rates. It is reasonable to expect SoCalGas and SDG&E to show in the next proceeding that they fully expended the funding to replace personal computers on a four-year cycle.

75. In D.01-12-018, the Commission adopted Comprehensive Settlement Agreement, with some modifications, for changes to the regulatory and market structure of the natural gas industry. The Commission issued D.04-04-015 on April 1, 2004, approving the implementation of the CSA without further modifications to it or to D.01-12-018. The software costs were for preliminary work.

76. Implementation in July is more probable than January 2004; therefore, it is reasonable that the rate base calculation be adjusted for a weighting for an in-service date on July 1, 2004.

77. We can rely on SoCalGas and SDG&E spreadsheets for the agreed-upon costs of Customer Service Dispatch Phase I and II.

78. Capital expenditures of $7.2 million ($5.5 million in 2003 and $1.71 million in 2004) have been delayed until 2008 for a Geographic Information System that would provide an automated system of mapping to improve the companies' ability to plan and manage the system, especially for maintenance and service restorations. The Measurement & Inspection System project is also delayed beyond the test year. Its budget was $2.74 million ($0.9 million in 2003 and $1.836 million) in 2004.

79. The capital expenditures forecast should recognize know changes.

80. SDG&E expects to spend $2.4 million in 2004 on the Pipeline Integrity Management project can reasonably be substituted in the test year.

81. ORA proposed a blanket adjustment after eliminating the high and low years in a six-year average. An average does not address the specific needs of the test year.

82. ORA would adjust 10% of the 2004 forecast capital expenditure for the Voice System Replacement Project based on its in-service date. ORA believed

SoCalGas would otherwise be over-compensated over a five-year life for rates. ORA's adjustment is inconsistent with having rates in effect for five years because SoCalGas would be short by 10% for all five years.

83. Pressure Betterment Project 2466 would modify SDG&E's gas supply system to allow multi-directional flow through the Otay Mesa Metering Station. Gas could alternatively flow northward from the Mexico and U.S. border into the SDG&E system.

84. The project interconnects SDG&E with an unregulated foreign Sempra affiliate, *Transportadora de Gas Natural de Baja California.*

85. SDG&E does not have a contract with a gas supplier and does not have approvals from both the Federal Energy Regulatory Commission and the U.S. Department of Energy for gas to flow northward.

86. The Otay Mesa betterment is not providing service at this time, it is not used and useful, and should not be in the 2004 rate base.

87. ORA examined the SDG&E electric distribution blanket capital expenditures five-year average. There were some blanket items with less than five-years' experience.

88. ORA rejected the entire $7.5 million for information technology projects in 2004, because of a concern that these types of information technology projects cannot be forecast like capacity projects, and the similarity of the project to another that also dealt with future information technology projects.

89. ORA relied on trends and assumed project duplication, but SDG&E provided reasonable detailed descriptions and budgets.

90. The $7.5 million for information technology projects in 2004 was presumed by ORA to be duplicative of other projects but this is not demonstrated in the record.

91. UCAN proposed an adjustment to the Underground Cable Replacement Program (Project 230) by relying on 2002 data to support a reduction. UCAN uses recorded data in a piecemeal fashion to support a downward trend. The correct trend is an upward trend, with SDG&E replacing more cable because underground cable is now a high percentage of its system and cable maintenance and replacement is critical to reliability. The SDG&E forecast is reasonable.

92. For Capital Projects Other Than Blanket & Information Technology – Electric, ORA presented by a clear simple example that, for projects with a multiple-year construction life, SDG&E over-stated the escalation, by $816,000 in 2003 and $697,000 for 2004, by applying the rate applicable only to the last-year's expenditures to total costs instead of escalating each year's costs separately. SDG&E's estimates are not reasonable and should be adjusted.

93. The costs of the Sorento Substation were reduced by SDG&E after it filed the application. This stipulation lowers the 2003 capital expenditures by $1.500 million. This lower estimate is reasonable.

94. The Sustainable Community Energy Systems program is intended to incorporate energy efficiency, conservation and renewable energy technologies and practice into new construction projects. The goal is to install solar photovoltaic devices, fuel cells and other technology and advanced metering, control, and other related systems.

95. SDG&E's sustainable community energy systems proposal is not sufficiently developed for adoption in this application.

96. The Settlement Agreement has a substantially lower forecast for Capital Projects Other Than Blanket & Information Technology than either SDG&E's request or even ORA's litigation position. As the result of deferring past the Test Year, specific additional projects in 2003 and 2004.

97. None of the 11 projects used to calculate the Partial Settlement's reduction were tested or analyzed in the written or oral testimony of any witness and seven of the 11 purport to resolve significant overload conditions. Projects deferred into years following the test year may be included in later rate base estimates thus making the Settlement look better for ratepayers than it really would be.

98. It is reasonable to adopt capital additions of $25.730 million in 2003 and $15.884 million for 2004, inclusive of escalation errors. Deferred projects will be reviewed in subsequent rate proceedings.

99. SDG&E has a program of investments in information technology projects that include replacement of obsolete software and hardware systems, and the development of new or systems and enhancements to existing systems.

100. The 2004 forecast of $5.3 million for the Geographic Information System project is likely to occur but there was no contract in place for the $5.2 million 2003 estimate. SDG&E agreed to reduce this forecast.

101. SDG&E justified the 2003 expenditures as recoverable in-house costs.

102. SDG&E agreed to an adjustment of $1.715 million in 2003 estimates for project 99821, Outage Management System II and ORA agreed to the 2004 expenditures.

103. The Hourly billing System will upgrade SDG&E's ability to handling billing for customers with interval meters. The system will not be used and useful within the test year and SDG&E agreed to a reduction of $1.1 million in the 2004 expenditures. SDG&E should recover the remaining $0.3 million for 2003 and the remainder of $0.9 million for 2004.

104. The remaining IT forecast is reasonable.

105. SDG&E owns a 20% minority-interest of SONGS. The O&M and Capital expenditures that are billed by Edison to SDG&E are litigated in the Edison rate

proceedings for consistency and to avoid duplicate litigation. SDG&E will recover most of its costs for SONGS based upon the Commission's D.04-07-022 in Edison's A.02-05-004.

106. In D.04-07-022, the Commission identified the reasonable 2004 capital expenditures and operating and maintenance expenses for SDG&E, which includes $7.597 million for 2004 capital expenditures and $41.144 million for 2004 operating expenses.

107. SDG&E will also incur capital expenditures forecast to be $14.469 million, and $0.76 million of forecast O&M expenses as its 20% share of total costs for specific new requirements, i.e., incremental requirements, imposed by the Nuclear Regulatory Commission's April 29, 2003 order that are not included in Edison's proceeding. Edison chose not to seek recovery in A.02-05-004.

108. SDG&E sought recovery of new security costs as known changes due to governmental action such as changes in tax rates, postage rates, or assessed valuation permitted by the rate case processing plan.

109. SDG&E's forecast of increased security costs are not a ministerial up-date, and A.02-12-028 is not subject to the provisions of the rate case processing plan, D.89-01-040.

110. The Commission has an obligation to provide adequate rates for SDG&E to provide safe and reliable service. ORA supports recovery of the new security costs. A rushed review in this application would not serve the public interest.

111. A balancing account, subject to refund, for incremental new security costs will allow SDG&E to recover its reasonable costs and allow ORA and others to perform a reasonableness review.

112. SDG&E is liable for its $1.2 million share of the Department of Energy's decontamination and decommissioning of uranium enrichment plants mandated by Title XI of the Energy Policy Act of 1992.

113. SDG&E's share of the cost to store spent fuel (used and no longer useful) from SONGS Unit 1 is $0.800 million. UCAN incorrectly identified the fuel storage cost as included in the Decommissioning costs for SONGS 1 included in A.02-05-004.

114. SDG&E's share for the annual payment to the Department of the Navy for its share for SONGS' site easement on Camp Pendleton, is $0.020 million.

115. SDG&E is not out of compliance with its line extension rules.

116. Working cash is an allowance added to rate base that represents the funds provided by investors that are needed to pay for current operating expenses and provide a financial cushion.

117. TURN adjusted the forecast revenue lag days by using a more recent time period than SoCalGas.

118. TURN and UCAN believe that SoCalGas and SDG&E should synchronize municipal tax calculations to the gas commodity prices. SoCalGas and SDG&E correctly use total revenue not commodity prices. SoCalGas and SDG&E correctly calculated lag-days.

119. TURN and UCAN adjusted the estimate for accrued vacation and withholding by using the adopted labor escalation rate. New employees accrue less vacation than older promoted workers who accrue more. SoCalGas and SDG&E reasonably calculated accrued vacation and withholding.

120. Many customers make deposits as a part of establishing credit with SoCalGas and SDG&E. As customer deposits are repaid to some customers, other customers submit new deposits; and while there is continuous turnover,

the average total daily and monthly customer deposit balances stay relatively constant. Between 1997 and 2001 SoCalGas had average deposit balances of $35.088 million and SDG&E had balances between $22 million and $24 million.

121. The Commission has adopted deviations from U-16 in utility-specific rate cases including the recent D. 04-07-022, in A. 02-05-004.

122. The circumstances surrounding ratemaking treatment for the SoCalGas and SDG&E working gas inventories are not equivalent to the circumstances attendant to TURN and UCAN's proposals for customer deposits.

123. SoCalGas and SDG&E reasonably prepared detailed remaining life studies for depreciation purposes using *Standard Practice U-4*. All parties accepted the studies that generally increased remaining life and reduced depreciation expense.

124. The net salvage estimates declined as calculated by SoCalGas and SDG&E when using *Standard Practice U-4.* ORA incorrectly used old net salvage rates results in order to achieve a higher salvage estimate than supported by the study.

125. So CalGas and SDG&E have previously been allowed to amortize a land right, which reduces their value in rate base over time. ORA would unfairly exclude land rights amortization in rates without providing for recovery elsewhere.

126. The uncontested 2004 customer forecast by class is reasonable.

127. ORA did not justify its adjustment to SDG&E's Account 163 – Purchasing and Warehousing by linking the adjustment to likely test year expense and activity. SDG&E reasonably forecast Account 163.

128. The SoCalGas estimate for Account 184.2 – Business Solutions, as adjusted by TURN for interest, fuel and fleet vehicles, is a reasonable estimate for vehicles.

129. ORA made an adjustment to SDG&E's Account 184.2 – Fleet based on a 2002 decline, without linking the decline to any change to the test year forecast.

130. UCAN made a comparable and consistent adjustment to TURN's SoCalGas adjustment for SDG&E's Account 184.2 – Fleet expenses. With this adjustment, the forecast is reasonable.

131. Tool repair costs for SoCalGas should be escalated at the standard non-labor rate.

132. The SoCalGas Account 184.6 – Tools and Uniforms costs of small tools, repairs, uniforms and coveralls for employees charged to Account 879 for SoCalGas is consistent with the workload in Account 879. TURN's capitalization adjustment was rejected elsewhere and does not reasonably apply here.

133. TURN showed that new tool purchases are not necessary for any replacement employees as the result of new hires.

134. TURN's uniform adjustment is unreasonable because the final employee is not certain.

135. The Commission adopted a Comprehensive Settlement Agreement that modified the market and regulatory framework for regulating the transportation and storage of natural gas on SoCalGas' system. D.04-04-015 was stayed pending the issuance of a decision in Phase I of Order Instituting Rulemaking 04-01-025. The company needs an adopted revenue requirement until the Settlement is implemented.

136. There is an existing memorandum account for gas storage operations adopted by D.03-12-057. The forecasts for gas storage O&M expenses for Test Year 2004 are reasonable.

137. The parties agreed that Account 807 should be reduced by $186,000 associated with upgrading technology for the Gas Acquisition Group; these costs should have been capitalized.

138. SoCalGas reasonably forecast a large increase in Account 814 – Engineering and Supervision. An average, as used by ORA, ignores the upward trend in the most recent years and all specific detailed forecast changes in costs.

139. ORA's proposed three-year average for Account 824 – Other Expenses, does not adequately address known changes for enhanced security, a change in capitalization and environmental monitoring. SoCalGas made a reasonable forecast of Account 824.

140. The 2004 forecast for Account 832 Maintenance of Reservoirs and Wells increased by 23% over the 2001 Base Year. SoCalGas did not adequately explain this increase.

141. TURN's proposed 50% reduction to the non-labor costs is reasonable.

142. ORA proposed a three-year average for Accounts 851, 856, 860 and 865. For an average to be a relevant forecast tool, it would be necessary to show that activities were essentially constant in nature.

143. SoCalGas testimony (Ex. 4) provided descriptions of programs and changes. In Ex. 94, SoCalGas provided further explanations and showed that it had answered detailed data requests by ORA. ORA did not explain why we cannot rely the estimates as proposed by SoCalGas.

144. Account 850 – Engineering and Supervision and Account 859 - Other Expense were corrected and changed in SoCalGas' errata, Ex. 4E and Ex. 6E. The corrected forecast is reasonable.

145. SoCalGas forecasts $1.345 million in expense to operate the Sylmar compressor station but it concedes that these costs could be recovered in the BCAP and these are new costs not already recoverable through prior orders of the Commission. To delay authority to the BCAP decision would be to deny recovery of costs until that time even though the station operates now. The SoCalGas estimate for Account 855, Electric Fuel, is reasonable.

146. The costs for maintaining additional equipment at Kramer Junction and North Needles (Account 857) is recoverable regardless of whether it is done by new employees or with overtime.

147. Department of Transportation fees and operating permit costs (Account 859 – Other Expenses) have been rising at the rate of inflation. The 2004 forecast is reasonable.

148. Local 483 opposed SoCalGas' incentive compensation programs, issues that were rejected by Local 483 as a part of its collective bargaining with SoCalGas. Local 483 offered no other fact or analysis in opposition.

149. Local 483 did not show that Test Year 2004 forecast contains an allowance for amortizing past fines or for anticipated fines.

150. Local 483 did not support its proposal that all hazardous spills should be reported to the Commission's staff.

151. Local 483 did not support its contention that two employees at all compressor stations and storage fields at all times could be a terrorist deterrent.

152. While Local 483 asked for an independent study of SoCalGas' contracting practices, this is a collective bargaining issue. We rely upon ORA to perform an

exhaustive review of SoCalGas' business practices as a part of its review of test year forecasts.

153. We do not adopt Local 483's proposal that management and non-represented employees who smoke should make higher employee contributions to medical plan costs, because no evidence was offered that this was practicable or subject to any quantification.

154. Local 483 did not justify its proposal that a formal utilization plan should be prepared for storage fields and compressor stations.

155. SoCalGas is already required to operate its system safely and reliably and comport with all applicable Commission General Orders. SoCalGas is also already required, at all times ensure that the proper design, construction and maintenance practices are used and that all necessary permits shall be obtained.

156. ORA proposed fractional adjustments in Account 870.0 - Operation Supervision and Engineering – Distribution, of a few thousand dollars that represent less than a single employee; these adjustments are 'forced fits' taking a seemingly reasonable estimation change and applying it to numerous related accounts without consideration of whether such an adjustment is feasible.

157. ORA did not link its Account 870.0 disallowance of two positions for Computer Aided Drafting as directly proportional to capital construction and to its other recommendations to reduce capital expenditures.

158. ORA proposed a $108,000 disallowance for a new maintenance and inspection system, a part of federally mandated Pipeline Integrity Program, by assuming a direct correlation to capital projects. ORA would eliminate 69% of five positions and 23% of two support positions as a generic "Support Labor" adjustment. ORA did not explain how we can credibly reduce the test year by fractions of employees.

159. ORA's proposed reduction for one Meter Records Clerk in Account 878 - Meter and House Regulator Expense, is linked to its reduction of meter replacements.

160. We cannot predict which tin meters and Rockwell meters will leak or fail so SoCalGas must replace them all.

161. ORA would reduce the number of company generated work requests erroneously believing them to be discretionary.

162. Nothing in the language in D.01-11-068 limits its scope to initial inspections of earthquake shutoff valves. In D.01-11-068, the Commission found it to be unfair to charge other customers for the costs of earthquake shutoff valve inspections.

163. The turn-off/turn-on of gas service prior to home fumigation is safety-related as defined in § 328(b). A one-way balancing account with an upper limit is unfair to applicants who must respond to all requests.

164. Resolution G-3344, allowed SoCalGas and SDG&E to temporarily apply Z-Factor treatment to recover the cost fumigation turn-off/turn-on of service.

165. Customers will not decide to fumigate a house simply because there is no separate turn-off/turn-on charge. A separate fee to fumigators or customers could provide an inappropriate incentive for them to perform the turn-off/ turn-on service themselves. The applicants forecasts are reasonable.

166. All homes that need testing should be tested for CO. SoCalGas and SDG&E have agreed with TURN and UCAN to record the costs for 100% of CO testing weatherized home in a memorandum account.

167. SoCalGas and ORA agreed to a $0.194 million reduction in Dispatch Operations. TURN's reduction was predicated on ORA's forecast of field service work orders.

168. Account 880.4 - Other Expenses – Distribution Field, should be adjusted to eliminate the proposed maturing work force forecast component.

169. "Off production time" for Other Capital Replacement costs is not in Account 880.4, therefore, no adjustment is needed.

170. Technical and field administrative support for pipeline records is related to the capital expenditures. The vast majority of capital expenditures are adopted as reasonable. Only the disallowance, for forecast maturing work force costs, is reasonable.

171. Except for the maturing work force forecast component, the test year Account 880.5 – Safety & Emergency Services is reasonable.

172. ORA's adjustment to Account 880.5 was based on one data point in 2002 and did not consider the expected test year's scope of work.

173. For a Special Leak Survey included in Account 887, ORA relied on a seven-year average, which it also proposed for capital expenditures for Routine Main Replacement that does not consider the age of the system. The average is not reasonable when compared to the expected workload.

174. ORA linked Account 887 Franchise Main Maintenance expense to capital expenditures. Actions by local government and CalTrans affect SoCalGas' expense, not capital expenditures. The recommendation is not reasonable.

175. Cathodic protection expenses should be forecast related to the whole system and not the test year construction forecasts as proposed by ORA. Only the disallowance for forecast maturing work force costs in Account 887 is reasonable.

176. ORA's adjustment for leaks recheck costs was linked to its capital expenditure forecast, but the ORA capital expenditure reduction was not reasonable. Therefore, the leaks recheck forecast should not be reduced.

177. TURN linked the increase in Account 887 costs to reduce the backlog in gas main leaks to under-spending by SoCalGas compared to the last authorized allowance. The current backlog is the result of new and more leaks in old pipelines. During this time the backlog grew from 4,709 to 8,246. SoCalGas admitted that it consistently under-spent on repairs, which led to the backlog growth.

178. The leaks must be repaired by SoCalGas within the adopted forecast for Account 887.

179. Account 892, Distribution Service Maintenance, should be adjusted by $0.417 million for unreasonable maturing work force cost estimates.

180. ORA incorrectly links maintenance in Account 892 for existing plant to new capital expenditures. If the funding is reduced for the maintenance of the curb meter boxes to inspect, rebuild, and repaint curb meter box sets along coastal areas that have been experiencing high levels of corrosion, then the need for future capital expenditures will rise. The SoCalGas forecast is reasonable.

181. Tin meters that leak are a safety hazard and do not need to be tested after removal for rebilling customers. This saves ratepayers $0.237 million in 2004 in Account 893.2.

182. ORA's removal of all "one-time" expenses would leave SoCalGas without a margin for other one-time, atypical, expenses for Information Technology Expense – Accounts 880, 903, and 923, in the test year and beyond. SoCalGas correctly estimates Information Technology Expense.

183. SoCalGas will undoubtedly have different one-time expenses until its next rate case and a 2% factor annually is a small allowance for subsequent year's one-time events. ORA's proposed removal of all "one-time" expenses would leave

SoCalGas without a margin for other one-time, atypical, expenses for Information Technology Expense Accounts 588, 880, 903, 920, 921 and 935.

184. SDG&E will undoubtedly have different one-time expenses until its next rate case in Information Technology Expense – Accounts 588, 880, 903, 920, 921 and 935. ORA's proposed removal of all "one-time" expenses would leave SDG&E without a margin for other one-time, atypical, expenses. SDG&E correctly estimates Information Technology Expense.

185. A number of new customer service information systems that are needed to improve service require personnel to operate them, even if the goal of the systems is to allow other personnel's field work to be better planned and coordinated. ORA's proposed disallowance would incorrectly remove the personnel to operate these systems. SoCalGas reasonably forecast this cost.

186. In Account 902, SoCalGas records the cost for reading about 5.44 million gas meters monthly, and about 125,000 electric meters in Orange County for SDG&E, in conformance with the affiliate transaction rules.

187. ORA's proposal to normalize the global positioning system costs for SoCalGas unfairly removes any one-time event component from Account 902 – Meter Reading Expense for other one-time events in subsequent years during the rate cycle.

188. ORA did not quantify its objection for more full-time positions that would train part-time meter readers.

189. Group and individual incentive safety programs are reasonable expenses to engender morale and a useful tool for encouraging worker safety.

190. TURN would incorrectly forecast the SoCalGas test year meter reading expense on a single base year 2002.

191. UCAN and SDG&E dispute each other's employee count for meter readers in Account 902.

192. The reliability of meter reading labor forecasts, and the likelihood of filling the vacant and new positions are significant concerns.

193. Costs for safety training and equipment are likely recurring costs.

194. SDG&E must support the installation of real-time meters funded by the California Energy Commission. This proceeding should not revisit Rulemaking (R.) 00-10-002, *Interruptible Load Programs* or R. 02-06-006, *Advanced Metering, Dynamic Pricing and Demand Response.*

195. ORA's end of litigation position on SoCalGas Account 903 – Customer Records and Collection Expenses - failed to reconcile internally and failed to capture the effects of SoCalGas' errata.

196. For Account 903, ORA eliminated 1997 and 1998, the two highest years and only averaged 1999 through 2001. ORA used 1999 through 2002 for Account 908 and used 1997 through 2001 for Account 909.

197. As gas prices sharply rose, so did Account 903 customer call volume. TURN would improperly recalibrate the call volume forecast on 2002 data. The critical element for handling calls is labor – a voice at the end of the phone line to assist customers.

198. In the highly diverse service territory served by SoCalGas it would be a disservice to cut corners on 24/7 Non-English language customer assistance. The public benefit outweighs the risk of over-budgeting.

199. Normalizing a five-year software site license contract of $25,000 is too granular and eliminates any one-time expense component. But it is appropriate to remove known cancelled contracts.

200. SoCalGas' Quality Assurance team forecast is consistent with accepting SoCalGas' call volume forecast. SoCalGas' forecast will tend to reduce subordinate to supervisor ratios of 24:1 to 20:1.

201. Normalizing SoCalGas' cost of Pay Station technology was unopposed. UCAN did not show its derivation of costs savings from Pay Stations.

202. ORA's adjustment in Account 903 for Paper Orders and Processing is unnecessary because it is dependent on ORA's rejected proposals for meter replacements and fumigation.

203. SoCalGas and SDG&E need an expanded credit analysis unit.

204. Meter reading has a high turnover rate because it is a transitional entryway into the company and because some part-time employees leave for work elsewhere. Full-time meter readers do not reduce the need for training due to high turnover.

205. The SoCalGas staff-to-supervisor ratio is extremely high, 43:1, which would justify an additional supervisor.

206. ORA's adjustment for communications expense is linked to the rejected adjustment for call volume. SoCalGas' call volume is a reasonable forecast.

207. ORA overstated the total of Account 903 in the 2001 Base Year because it did not up-date its results of operations calculations for changes in SoCalGas Ex. 7-E.

208. SoCalGas made a reasonable estimate for fumigation calls.

209. ORA could not substantiate the claim that SDG&E's forecast RD&D expenses were funding a corporate position in a competitive market.

210. Funding expenses for labor will allow customer contact and reducing non-labor expenses by 50% will avoid image-enhancing sponsorships of events in Account 903.1.

211. ORA adjustments to SDG&E's Account 903.1 – Customer Records & Collections that are based on its customer growth forecast are not necessary because we adopt SDG&E's customer growth forecast.

212. SDG&E has a duty to provide customer outreach and information a reasonable cost; it is not a discretionary expense. ORA could not substantiate the claim that SDG&E's historical levels of customer information costs would be reasonable for Test Year 2004.

213. Four positions to provide information on the SDG&E CARE program and energy efficiency programs as special services staff are reasonable and should be included in test year base rates. The energy efficiency program budgets are intended to provide funding for actual program costs. Base rates should provide basic informational services.

214. SDG&E's Account 903.1 Non-labor cost for token gifts to customers for load reductions are not includable in test year costs.

215. UCAN would disallow 50% of the Account 903.1 programming costs for the inactive 20/20 rebate program, but reasonably allows 50% of the forecast for other unforeseen activities.

216. Costs for CO testing are not already recoverable in SDG&E's demand side management programs funded by the public goods charge. They are includable in test year costs.

217. SDG&E did not duplicate its request for employees in Accounts 903 and 920 to work with federal agency customers.

218. UCAN did not substantiate its claim that SDG&E double-counted escalation for newspaper advertising costs.

219. UCAN's reduction to staff for outage notification is related to its reduction of underground cable replacement capital expenditures that was rejected.

220. UCAN's adjustment for SDG&E's 2002 computer purchases is unnecessary.

221. Dynamic tariff & demand reduction program costs are recoverable in costs of service pursuant to D.02-04-060.

222. SDG&E has filled the positions that perform manual billing for net-metering. UCAN did not substantiate its claim of double billing.

223. SDG&E is obliged to develop and implement time-of-use billing in conjunction with installing appropriate meters and R.02-06-006.

224. UCAN's objections to various SDG&E metering expenses and capital expenditures are not properly identified by account and project.

225. Postage expense is not an issue based on the SDG&E Joint Comparison Exhibit.

226. ORA's estimate in Account 904 using a three-year rate of 0.322% for uncollectable revenues results in a $1.107 million reduction. A balancing account is not needed because SoCalGas is fully funded for credit analysis.

227. TURN's estimate, which causes a $1.218 million reduction to uncollectable revenues, also includes the effect of increased deposits as well as the fully funding of credit analysis over TURN's objections.

228. ORA failed to substantiate the claim that SoCalGas' increased estimate in Account 908 for outreach is promotional and marketing in nature.

229. ORA calculated a four-year recorded average of $12.5 million and added a further $0.881 million for eS*ervices.*

230. SoCalGas failed to substantiate its claim that its changing customer demographics demonstrate sufficient change to warrant the requested increase in Account 908 – Customer Assistance.

231. The SoCalGas Partial Settlement included $15.703 million - $7.376 million in labor, $7.329 million in non-labor, and $0.998 million in non-standard components. The settling parties reduced the Account 908 request by $7.655 million compared to ORA's $9.113 million and TURN's even larger litigation disallowance.

232. The scope and scale of the increase in Account 908 is unlikely to occur, and was not shown as necessary, in the test year as proposed by SoCalGas. Absent an appropriate litigation showing, we can accept the Partial Settlement Test Year 2004 $15.703 million - $7.376 million in labor, $7.329 million in non-labor, and $0.998 million in non-standard components.

233. TURN identified $0.100 million for measurement and evaluation studies that SoCalGas that should not shift from the GCSF to base rate recovery in Account 910.

234. There is definite consumer benefit and value to enhancing online service options including bill payment, and application for CARE, Medical Baseline and all other customer-benefit services.

235. As a component of the adopted Account 908 estimate, ORA's recommendation of a minimum expenditure of $0.881 million will ensure that SoCalGas pursues development of eServices.

236. Adopting the SoCalGas Partial Settlement estimate for Account 908 makes moot the discrepancies in ORA's litigation estimates shown in the Comparison Exhibit.

237. We cannot quantify a specific permanent reduction to SDG&E employees that would allow us to reduce the necessary number of vehicles or fleet services in Account 908 with any certainty.

238. SoCalGas and SDG&E have already accepted and included in revenue requirements corrected adjustments in Account 908 for a joint TURN and UCAN proposal to include $0.030 million for operating savings as a result of installing the *Strategen* Real Estate Software.

239. SoCalGas failed to justify an increase over the base year for Account 909 Customer Information / Instruction.

240. TURN would improperly recalibrate the forecast on 2002 data.

241. SoCalGas proposed $381,000 in Account 920 for six accounting positions and SDG&E proposed $298,000 in Account 920 for five positions for the expected increase in workload due to Sarbanes-Oxley Act requirements.

242. Sarbanes-Oxley clearly added to the internal control requirements and reporting obligations of companies like SoCalGas and SDG&E – and Sempra, its parent. The partial settlements for both SoCalGas and SDG&E failed to identify specific treatment of incremental Sarbanes-Oxley workload.

243. Better and more detailed financial review protects shareholders and also benefits ratepayers through reduced risk of financial irregularities and faster financial reporting. Training expenses in Account 921, related to Sarbanes-Oxley, are necessary.

244. SoCalGas and SDG&E need more positions to adequately account for capital expenditures.

245. SDG&E needs more positions for adequate accounting review and asset monitoring.

246. SoCalGas needs two positions to continue to refine and enhance the results of operations model spreadsheets used for cost of service ratemaking, to implement the decision in this proceeding, and prepare for the next rate proceedings for SoCalGas and SDG&E. This is consistent with § 1821 and § 1822.

SoCalGas and SDG&E will file a NOI as a part of the next base margin ratemaking proceeding.

247. In Accounts 920 & 921, Administrative and General – Salaries and Expenses for Regional Public Affairs, SoCalGas did not justify or quantify any changes in the costs for its staff from the 2001 Base Year to the test year 2004 levels. The described work tasks are existing duties.

248. ORA did not justify its proposed disallowance of SoCalGas Regional Public Affairs costs as lobbying expenses.

249. SDG&E did not justify or quantify any changes in the costs for its staff from the 2001 Base Year to the Test Year 2004 levels. The described work tasks are existing duties.

250. ORA did not justify its proposed disallowance of SDG&E Regional Public Affairs costs as lobbying expenses.

251. The partial settlements provided no information on a compromise on duties or expectations that could be relied upon to adopt a reasonable estimate.

252. ORA could not justify its disallowance in Account 920.2 of 1.2 positions in the SoCalGas Human Resources Department. ORA failed to identify any deficiency in SoCalGas' request. SoCalGas justified the need to continually update its training programs.

253. SDG&E's Human Resources Department does not need more employees because we reject the maturing workforce and increased hiring argument.

254. ORA has not shown any analysis of actual (historical) severance payments compared to salary savings that would show any ratemaking adjustment is applicable to either SoCalGas or SDG&E.

255. SDG&E and ORA agreed to a $113,000 reduction reflected in both SDG&E's and ORA's end of litigation position to resolve an unidentified issue

related to ORA's audit of 2001 recorded information and an unreconciled difference between their results of operations spreadsheets.

256. SoCalGas' forecast of Test Year 2004 labor costs of $29.915 million in Account 920.0 and $2.015 million in Account 920.2 are reasonable administrative and general costs.

257. SDG&E Test Year 2004 labor costs of $1.080 million in Account 920 "A" and $9.801 million in Account 920 "O" are reasonable administrative and general costs.

258. SDG&E Account 920 "B" Incentive Compensation Plan and Spot Cash Awards are reasonable incentives and ORA's generic 50% disallowance of incentive compensation is not reasonable.

259. Test Year 2004 SDG&E environmental services costs of $1.133 million in Account 920 "C" are a reasonable forecast. It is not reasonable to adjust the forecast based solely on 2002 data.

260. ORA identified $0.110 million in unreasonable costs for membership dues, donations and contributions as defined by D.96-01-011 in SoCalGas Account 921, Administrative and General Non-Labor Expense. These costs should be disallowed.

261. SoCalGas did not justify the need for $0.298 million cost for temporary help in Account 921 that can be funded with savings from vacant positions.

262. Minor costs in Account 921 for employee recognition activities are reasonable.

263. SoCalGas fails to meet its burden of proof to explain the "legal settlement" costs of $0.253 million included in Account 921. It is reasonable to disallow the unjustified component in Account 921.

264. The forecast in SoCalGas' Account 921.6 for electricity costs from Edison should be reduced by $0.635 million based upon Edison's August 2003 rate reduction.

265. ORA did not justify its reduction to SDG&E's forecast in Account 921.6 for Sarbanes-Oxley costs in the Controller's Department. Training and consultant costs are necessary to employee performance.

266. It is not necessary to increase SDG&E's relocation and search fees by $0.800 million or background checks by $87,169, because we doubt the level of hiring proposed by the applicants will necessarily occur because we reject the maturing work force argument.

267. ORA did not justify a disallowance of retained expenses for labor relations. SDG&E justified the need for these expenses.

268. ORA did not justify disallowing consulting costs for SDG&E strategic planning. SDG&E justified the need for ongoing studies and modeling.

269. An adjustment based on 2002 costs for SDG&E Account 921 "C" Office Supplies & Expenses – Supplies Management, was not shown to be relevant to the 2004 forecast.

270. SoCalGas and SDG&E are allowed to perform Shared Services for each other under the terms of the Sempra *merger decision*, D.98-03-073.

271. An annual independent audit of affiliate transactions required by D.98-08-035 excludes transactions between SoCalGas and SDG&E.

272. The allocation of shared services to numerous FERC accounts is relatively unimportant to ratemaking. The objective for ratemaking is establishing the reasonableness of costs recoverable in rates that are incurred as shared services to provide safe and reliable service.

273. The parties should plan, schedule and conduct workshops on the presentation of Shared Services data prior to the next application so that we may have a more meaningful discussion in the next rate proceedings for SoCalGas and SDG&E.

274. The Joint Comparison Exhibit, Ex. 150, identified $0.809 million, where SDG&E either offered no rebuttal or otherwise accepted ORA's adjustments to Account 921 "E1" and "E2" Sempra Energy Corporate Center (Administrative & General Costs). These adjustments are reasonable.

275. ORA identified $0.115 million as the costs for the External Affairs & Communications department that promote employee volunteer opportunities. These are costs associated with philanthropic activities that are not recoverable from ratepayers and should be disallowed.

276. ORA's objection to SDG&E's request for positions for tax accounting was not quantified or justified.

277. Leadership training and development costs, including teambuilding costs, are necessary for SoCalGas and SDG&E management to work together well in order to better serve ratepayers.

278. ORA did not address any issues relating to SDG&E's or SoCalGas' workforce diversity. Applicants' earning the U.S. Department of Labor's *Secretary's Award* is a demonstration of the commitment to diversity by SoCalGas and SDG&E, and it contributes to recruiting qualified female and minority candidates.

279. The costs of the corporate General Counsel are correctly allocated consistent with other legal costs.

280. Minor costs for publications, transportation and other contributions are costs traditionally incurred by a top executive in the normal course of business.

281. There is $0.284 million that does not reconcile in ORA's spreadsheets for SDG&E's revenue requirement. We can rely on SDG&E's spreadsheets to calculate the adopted revenue requirement.

282. SDG&E conceded that allocation of External Affairs Senior Vice President shared services should be increased to the retained costs at Corporate Center for departments not allocated to the utilities.

283. UCAN's recommendation to disallow $144,000 in governmental and regulatory consulting costs that it claimed were not adequately justified cannot be reconciled with the new allocation of shared services.

284. UCAN did not did not provide adequate detail of a proposed allocation change for $0.935 million of Legislative Governmental costs.

285. UCAN misused the "directly and primarily benefit ratepayers" criteria when the correct issue is whether SoCalGas and SDG&E receive from the Corporate Center's shared costs adequate services that are necessary to safely and reliably operate the companies.

286. UCAN provided no explanation for its assertion that it is unlikely that customers would benefit from Corporate Center activities. UCAN provided no analysis of the activities and no demonstration of anti-ratepayer-interest legislative advocacy by the Corporate Center.

287. Affiliate compliance work is performed to benefit Sempra and the other companies, and the Sempra desire to own two utilities. It is only necessary because of the holding company structure. It is reasonable to disallow this cost.

288. UCAN showed that ORA did not identify all of the costs for Community Affairs related to SoCalGas and SDG&E philanthropy. It is reasonable to disallow the additional $187,000.

289. UCAN did not demonstrate that the Communications Department costs included one-time 2001 energy crisis related costs in the test year.

290. Management position costs should be allocated consistently with the programs and services under their direction and control. The four-factor method is not appropriate for the Holding Company Chief Financial Officer. It is reasonable to reallocate the costs consistent with the allocation of the subordinate departments.

291. UCAN did not justify a disallowance of incremental non-labor costs for travel and incremental office expenses for Investor & Shareholder Relations.

292. The primary cost allocation method should always be as direct to the cost-causing entity or principal beneficiary as possible. The multi-factor method is a conventional default method when there is no more appropriate direct method. UCAN's 50-50 method for Investor & Shareholder Relations costs is arbitrary.

293. Applicant does not appear to have duplicated positions.

294. UCAN's proposed disallowance of payroll costs for the Corporate Center ignores the fact that Corporate Center centralized costs the two utilities would otherwise incur.

295. UCAN's proposed accounting adjustments relitigate the purpose of the holding company, which is outside the scope of this proceeding.

296. Corporate Center functions for corporate planning do not duplicate functions within the utilities. UCAN did not show the ratepayers do not receive direct and primary benefit from shared Corporate Center services.

297. UCAN's proposed labor adjustment for Corporate IT costs did not reflect the new higher threshold for capitalizing costs. The applicants showed that new systems are required by Sarbanes-Oxley and not for productivity improvements as asserted by UCAN.

298. That data was not available to support a labor tracking-based allocation of Corporate IT costs is uncontested. The default four-factor method proposed by UCAN is appropriate without better data. It is reasonable to reduce Corporate Information Technology costs by $1.950 million

299. Fees for a syndicate of banks to offer lines of credit to SoCalGas and SDG&E should only be recovered one time in rates, in this proceeding, and not in a cost of capital related proceeding.

300. SoCalGas and SDG&E have adjusted the revenue requirements for some financing costs recovered elsewhere. SoCalGas and SDG&E implicitly accept the forecast risks until the next proceeding to set a new test year revenue requirement.

301. For the foreseeable future, Applicants have shown that rating agency costs have risen and will stay higher than the base year.

302. SoCalGas and SDG&E have shown that increased travel costs are necessary for existing treasury employees.

303. SoCalGas and SDG&E do not need to adjust non-labor costs for risk-management even though they reduced their request by one position. UCAN's proposal did not distinguish between labor and non-labor.

304. SoCalGas and SDG&E did not support a continuous turnover of employees in the tax department or the continued need for relocation expenses. Recruiting and relocation costs forecast by SoCalGas and SDG&E are too high. It is reasonable to disallow $305,000 for relocation costs.

305. UCAN's computer adjustment is inconsistent with the capitalization policy adopted in this decision.

306. SoCalGas and SDG&E reasonably allocate tax services on the number of employees.

307. UCAN did not add any new facts that would support ORA's proposed disallowance for leadership training and development.

308. The Corporate Center performs necessary functions for the utilities and non-utility and for the common "parent," therefore it is reasonable to allocate to SoCalGas and SDG&E the fair share of costs of the Corporate Center in lieu of SoCalGas and SDG&E performing these tasks themselves.

309. There is no need to reallocate costs for Diversity Affairs because we did not adopt most of UCAN's labor adjustments. There are continuous costs for training and education to remain proficient and effective in recruiting and retaining a diverse workforce.

310. UCAN would unfairly disallow any position that was vacant at the time it performed its analysis but it has not otherwise been shown that the positions are not needed for the test year.

311. UCAN would disallow in the test year forecast consulting and training costs without allowing for other post-test year non-recurring costs.

312. Fleet Services does not duplicate Corporate Security's services for the executive fleet.

313. Corporate training for specific leadership competency-based training, people research, and executive development should not be viewed as a one-time expense. SoCalGas and SDG&E need continuing education that changes as their needs change.

314. UCAN did not show that it was reasonable to adjust the Sempra corporate secretary's costs based on a comparison of the PG&E corporate secretary's duties. The relevant allocation for Sempra's corporate secretary to SoCalGas and SDG&E should be the actual duties and the cost-responsibility of the department relative to all of the Sempra companies.

315. UCAN disputed the rate of hiring to fill vacancies within the Legal Department and not the size of the department.

316. The 2004 Test Year dispute between SDG&E and UCAN for nuclear insurance is over the likely 2004 refund in comparison to recent years' refunds. Based on credible information, the 2004 premiums will rise and the expected refunds will decline.

317. UCAN did not demonstrate that certain all-risk insurance policies included non-utility property coverage.

318. Directors and Officers' Insurance protects honest well-intentioned directors and officers while they perform their duties. Disallowing premiums provides no ratepayer protection from misconduct or malfeasance.

319. UCAN incorrectly calculated insurance premiums because there is a permanent timing difference in policy coverage and annual ratemaking revenue requirements. UCAN used incomplete declaration information whereas SoCalGas and SDG&E used credible information for the forecast.

320. UCAN incorrectly proposed a recorded cost rather than forecast test year for other liability insurance premiums. In a future test year rate regulation regime, we are obliged to make educated forecasts.

321. The costs for the Sempra Energy's Corporate Center were reviewed by ORA one-time in Ex. 302 for SDG&E. None of the adopted adjustments apply to SoCalGas.

322. The SoCalGas Joint Comparison Exhibit and both the ORA and Sempra opening litigation briefs do not match for SoCalGas Account 923 Outside Services. Neither ORA, or SoCalGas and SDG&E, discussed Account 923 or Shared Services issues in their Litigation Reply Briefs.

323. There is no record to support the $155,000 difference in ORA's forecast for SDG&E Account 923 - Outside Services.

324. For SoCalGas and SDG&E Account 924 - Property Insurance, the only difference is that ORA's position does not reflect all errata changes. There is no basis for ORA's 50/50 split of SoCalGas and SDG&E Account 925 Directors and Officers Insurance costs. It is not evident that ORA considered the policy's deductible feature. The Sempra policy has a $10 million deductible before the insurance company pays any claim – and the applicants are not seeking an amortization of any assumed deductible, only the premium.

325. The PG&E allocation of directors and officers' insurance costs is not relevant to this proceeding.

326. The differences in Account 930.0 - Miscellaneous Expense are a discrepancy between the errata positions of parties and the end-of-litigation positions. Applicants were consistent in reflecting updates and errata and ORA was not.

327. In Account 930.2 - Research Development & Demonstration, ORA's results of operations spreadsheets and testimony has a $0.403 million discrepancy.

328. Power generation research development and demonstration is designed to improve the cost effectiveness, energy efficiency and emission levels of distributed generation products and related technologies. The purpose of funding this program is to ensure products are developed on an accelerated basis and deployed to improve air quality.

329. The integrated energy system controls are activities related to building automation and controls. ORA did not show there are commercially available systems. ORA's review of RD&D was too superficial to determine that funding should stop now.

330. ORA provided no explanation for its adjustment to administrative costs.

331. ORA proposed a $0.070 million adjustment to SDG&E Account 930 "C" Environmental Services; about 3%, for salaries and expenses for employees who maintain meter records, field operations, and other tasks. We have adopted most of the capital expenditures and expense estimates for maintenance and it is consistent to include this expense.

332. SDG&E removed $1,110,000 in Account 930A base year 2001 administrative fees and expenses associated with Rate Reduction Bonds to the end-of-litigation results of operations for Test Year 2004.

333. The issue of maintenance costs in SoCalGas Account 935 for the Pico Rivera chiller was not briefed and the issue is withdrawn.

334. ORA and TURN resolved all issues about the correct method to compute the tax expense allowances for Test Year 2004 and UCAN supported the tax stipulation in its opening litigation brief.

335. It is reasonable to calculate all taxes based on the adjustments adopted in this decision on capital and expense items, by otherwise using the embedded calculations in SoCalGas and SDG&E's end of litigation summary of earnings spreadsheets.

336. SDG&E's allocation of shared costs for SONGS were litigated in total in the Edison general rate case, A.02-05-004, and adopted in D.04-07-022.

337. SDG&E identified in Account 556 - System Control & Load Dispatch new duties including the administration of the DWR electricity contracts that have been allocated to the company.

338. ORA did not examine whether SDG&E was adequately organized to plan for and meet future natural gas and electric resource procurement and

distribution needs. ORA proposed only a generic cut without adequate justification to the staffing forecast in SDG&E's Account 557 - Purchase Power.

339. SDG&E's Performance Support project including the Electric Geographic Information System project in Account 580 has not been delayed. The program should be funded. ORA did not justify its disallowance by asserting a lack of an adequate justification by SDG&E.

340. The four New Business Construction Manager positions in Account 580 that would implement new Title 24 building standards, promulgated by the California Energy Commission, are not needed before the standards are effective in 2005. SDG&E has discretion to shift funding if the positions are needed sooner.

341. ORA did not justify the disallowance of field supervisory personnel included in Account 580 that support electric distribution functions. SDG&E showed that these positions are necessary.

342. The load dispatch workload has increased as a result of GO 166, *Standards for Operation, Reliability, and Safety During Emergencies and Disasters*. ORA recognized the need for additional staff and training but did not explain why its estimate of six new positions in Account 581 was a better estimate than SDG&E's estimate of eight positions.

343. ORA's disallowance of $0.050 million in over time for Account 582 - Station Expense assumed without justification that remote monitoring would reduce overtime.

344. ORA proposed to use an uncompounded flat rate of 10% over base year 2001 for an increase in the inspection, testing, and other routine operations of underground lines. It did not demonstrate that SDG&E's use of an historical

4.26% was wrong and it offered no justification that the flat 10% was more reasonable.

345. ORA used an unexplained estimate of $500 cost per encroachment investigation and an unexplained forecast of 170 annual encroachments. SDG&E's estimate reflects recent historical costs and is therefore a better forecast.

346. In Account 580, SDG&E' forecast for training was adopted and the related non-labor costs in Account 588 Miscellaneous Distribution Expenses are therefore needed too. ORA proposed arbitrary adjustments to eliminate a training coordinator and to reduce per-student materials costs, which are not reasonable.

347. ORA proposed a "one-time" expense disallowance for information technology related expenses but failed to provide for other minor expenses in subsequent years. A miscellaneous account is expected to be an allowance for numerous items that are too numerous and too small to estimate in detail.

348. ORA proposed a $0.206 million reduction to training for Customer Project Planners in Account 590 by reducing the number of students, reducing the number of instructors and increasing class sizes. It claimed this reduction was consistent with customer growth, but this only serves to make training less effective.

349. D.98-12-038 (83 CPUC 2d, 363) established a one-way balancing account for tree-trimming costs. These costs remain volatile and uncertain as shown by Governor Davis' March 7, 2003 Emergency Proclamation to deal with the impacts of the pine bark beetle infestation.

350. We have no record on tree-trimming alternatives including tree replacement that could tend to reduce tree-trimming and other vegetation management expenses.

351. A tree-trimming vegetation management balancing account is still reasonable and necessary.

352. SDG&E lacks location mapping information on individual streetlights needed to inspect them in compliance with GO 165. The cost can be spread over three years because rates will be in effect at least that long and SDG&E has discretion over how quickly it performs the mapping. The costs are therefore reasonable for the test year.

353. ORA provided no justification to reduce the number of inspectors included in Account 593 - Maintenance of Overhead Lines. There are two other corrections or adjustments for $0.185 million accepted by SDG&E but not reflected in the Joint Comparison Exhibit, Ex. 150. It is reasonable to include them in the adopted revenue requirement.

354. The ORA proposal to disallow $1.6 million in Account 594 - Maintenance of Underground Line, which is related to the Sustainable Community Program, is reasonable.

355. ORA proposed the same flat rate growth factor in Account 594 that it proposed for Account 584 and there is no basis to use that flat rate.

356. In Account 970, SDG&E could not document costs increases attributable to "stricter" environmental regulation by local jurisdictions.

357. Three new positions for New Business Managers are needed to comply with the Energy Commission's new energy efficiency requirements beginning in 2005, but SDG&E needs staff to be prepared in 2004 to deal with builders ahead of 2005 construction.

358. ORA's proposed adjustment for a reduction to supervision due to estimate differences in fumigation turn-off/turn-on and customer growth is too granular.

359. Because we adopted the ORA adjustment to gas distribution capital expenditures for the delay in the geographic information system, the related adjustment is needed for consistency in Account 880 - Other Expenses, for training expenses of $0.041 million and $0.083 million for contract services related to the geographic information system.

360. In Account 887, SDG&E could not document costs increases attributable to “stricter” permitting. Nor is SDG&E’s maturing workforce proposal credible for cathodic protection electricians.

361. ORA’s rate of system growth is not credible to adjust Account 887 - Mains.

362. In Account 892 – Services, SDG&E could not document costs increases attributable to “stricter” permitting.

363. In Account 586 - Electric Meter Testers, it is reasonable for SDG&E to increase the number of apprentices to replace maturing workers.

364. In Account 586, SDG&E’s use of a five-year average for 44 different order groups to develop an order per 1,000 active meters, and its subsequent use of the 2004 meter forecast to ultimately project costs is reasonable.

365. Because we do not accept ORA’s adjustment in Account 586 to the forecast of field orders there is no basis to consistently adjust Account 878 Relocation of Gas Meters and Regulators.

366. Because we do not accept ORA’s adjustment in Account 586 to the forecast of field orders there is no basis to consistently adjust Account 879 - Gas Customer Installation Expenses.

367. There is no persuasive basis to impose a one-way balancing account for fumigation related work orders to shut-off and restart service.

368. SDG&E proposed and justified a significant expansion of information programs for consumers.

369. ORA's proposal to use a five-year average of 1997-2001 for Account 910 - Miscellaneous Customer Service and Informational Expenses ignores the effect of the trend in costs.

370. SDG&E accepted two differences in Account 910 cited in the Joint Comparison Exhibit that are reductions for communication expenses for the energy crisis discontinuing a survey. It is reasonable to include them in the adopted revenue requirement.

371. Neither UCAN nor ORA adequately quantified and justified an adjustment for expanded eServices included in Account 910. The proposed 50% disallowance is arbitrary.

372. ORA did not perform an audit of SoCalGas and SDG&E with the intention of expressing an opinion on the financial statements.

373. In 2001, SDG&E sold property for a before-tax gain of $22 million that at one time had been accounted for in Plant Held for Future Use. Some site-related costs were previously authorized to be amortized in rates and the balance was in rate base for future use until 1984 when a portion of the remaining balance was also amortized and a residual amount, $19.5 million, was removed from rate base.

374. ORA proposed to re-weight the allocation of 2001 gain by including past recovered costs to create an allocation based on what it termed "risk exposure." This method is in conflict with D.83-12-065 where the Commission allocated a subsequent gain on a shared basis of the time the property was included and then excluded from rate base.

375. SDG&E reasonably used the Transition Cost Balancing Account to return to ratepayers a share of the gain on sale.

376. ORA did not show that the allocation of audit fees to SoCalGas and SDG&E was based on the volume of the work papers. ORA did not raise any discovery issues regarding access prior to serving testimony. The current allocation in the test year is reasonable.

377. ORA experienced some difficulty in reconciling the recorded results for the Base Year 2001 to the "Restated" Base Year 2001. SoCalGas and SDG&E reasonably shifted costs between accounts to reflect the Test Year 2004 organization of accounts and responsibility for those accounts. ORA focused on the historical allocation to the detriment of examining the forecast functions. We expect SoCalGas and SDG&E to follow the rate case processing plan and avoid the need to restate base year cost.

378. UCAN's examination of shared corporate services correctly focused on the function rather than the allocation.

379. An adequate explanation with detailed workpapers for any restatement of the next base year will be relevant to determine whether SoCalGas and SDG&E meet the burden of proof in the next rate proceeding.

380. On April 22, 2004, the Commission adopted D.04-04-042,[454] a decision that approved a contested settlement agreement and resolved most of the disputed issues among SDG&E and all but one of the other active parties in SDG&E's 2003 Rate Design Window proceeding. That decision controls the allocation for the adopted electric department distribution test year revenue requirement based on an equal percentage of marginal cost methodology, using caps and floors designed to moderate increases that would otherwise disproportionately impact residential and street lighting customers.

381. SoCalGas has not demonstrated that it adequately plans for the utilization of its gas storage fields and compressor stations.

Conclusions of Law

1. SoCalGas and SDG&E should file NOIs of their next rate applications and to file in conformance with the Commission's rate case processing plan.

2. TURN and UCAN and other intervenors, in addition to ORA, should be allowed to review the NOIs and provide SoCalGas and SDG&E with deficiencies in the applications.

3. For all uncontested issues not expressly addressed in this decision, SoCalGas and SDG&E demonstrated that the requests were just and reasonable.

4. Only SoCalGas and SDG&E have an obligation to meet the burden of proof that the rate requests are reasonable.

5. The adopted revenue requirements of $1,550.0 million in natural gas distribution revenues for SoCalGas, and $836.3 million in electric distribution revenues and $221.2 million in natural gas distribution revenues for SDG&E in Test Year 2004 are reasonable and are supported by the record in the consolidated proceedings.

6. The partial settlements fail to establish adequate service and performance expectations so that the rates would be just and reasonable in exchange for that service.

7. The partial settlements do not meet the burden of proof for determining just and reasonable rates.

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[454] A.03-03-029, filed March 17, 2003.

8. The Settlements between Greenlining and SoCalGas and SDG&E should be approved.

9. The SoCalGas and SDG&E litigation forecast method should be approved.

10. The agreements on forecasts contained in the Joint Comparison Exhibits should be approved.

11. A pension expense balancing account would allow SoCalGas and SDG&E to fully recover the actual costs of pension contribution up to the adopted forecast amount. A pension expense balancing account is reasonable.

12. A Memorandum Account for Workers' Compensation expenses is reasonable.

13. SoCalGas should continuedqualifying capitalized expenditures of $500 or more for SoCalGas and for SDG&E should continue to capitalize qualifying expenditures of $2500 or more..

14. By adopting a test year forecast SoCalGas and SDG&E, are reasonable to impose an expected to generally expend the money on the project or program as described.

15. Any failure to follow through on adopted expenditures or program changes as adopted in the Test Year 2004 forecast is directly relevant to the credibility of SoCalGas and SDG&E in subsequent proceedings when considering the reasonableness of their forecasts and professional judgments during and subsequent to the test year.

16. It is in the public's interest for us to consider new security related costs for SONGS at this time. It is consistent with our obligation to provide SDG&E adequate rates to ensure safe and reliable service.

17. A SONGS Incremental Security Balancing account, subject to refund, is a reasonable consumer protection to avoid overpaying for incremental security costs at SONGS that have not yet been litigated.

18. UCAN's metering related proposals are beyond the scope of this proceeding and belong instead in other proceedings, including R.00-10-002, *Interruptible Load Programs* and R.02-06-006, *Advanced Metering, Dynamic Pricing and Demand Response.*

19. Energy efficiency and demand side management costs currently recovered in the GCSF should remain in the GCSF and should not move to SoCalGas' Account 908.

20. Philanthropic giving by SoCalGas and SDG&E shareholders should not be borne by ratepayers.

21. The Sarbanes-Oxley Act (2002) is one of the most important new federal legislative actions and has significantly modified and expanded the reporting and control requirements and affecting corporate governance, financial disclosure and the practice of public accounting.

22. Ratepayers receive direct and primary benefit from shared Corporate Center costs that do not duplicate utility corporate functions.

23. UCAN misapplied the direct and primary benefit criteria in its challenge to shared services performed by the Corporate Center. It is reasonable to allocate to SoCalGas and SDG&E the fair share of costs of the Corporate Center in lieu of SoCalGas and SDG&E performing these tasks themselves.

24. The tree trimming one-way balancing account for SDG&E for vegetation management costs shoud continue SoCalGas should be directed to report on its gas storage field and compressor station utilization plans in its next BCAP filing.

25. SDG&E must accommodate the provisions of Assembly Bill 1X by applying the residential class revenue requirement allocation in a manner consistent with the Commission's determination in D.04-02-057.

26. The use of averages is more appropriate than a single year's data to estimate test year 2004 customer advances, therefore it is reasonable to adopt $35 million and $23 million as adjustments to working cash for SoCalGas and SDG&E.

27. It is reasonable to deviate from Standard Practice U-16 and offset working cash requirements by the available average customer deposits.

O R D E R

IT IS ORDERED that:

1. Application (A.) 02-12-027 is granted to the extent set forth in this order. Southern California Gas Company (SoCalGas) is authorized to collect, through rates and through authorized ratemaking accounting mechanisms, the 2004 Test Year Base Margin set forth in Appendix F.

2. A.02-12-028 is granted to the extent set forth in this order. San Diego Gas & Electric Company (SDG&E) is authorized to collect, through rates and through authorized ratemaking accounting mechanisms, the 2004 Test Year Base Margin for Natural Gas Service as set forth in Appendix D.

3. A.02-12-028 is granted to the extent set forth in this order. SDG&E is authorized to collect, through rates and through authorized ratemaking accounting mechanisms, the 2004 Test Year Base Margin for Electric Service as set forth in Appendix E.

4. Within 14 days of the effective date of this order, SoCalGas and SDG&E shall file revised tariff sheets to implement the electric and gas revenue requirements set forth in Appendices D, E and F.

5. SDG&E shall allocate its 2004 electric distribution revenue requirement based on an equal percentage of marginal cost methodology, using caps and floors designed to moderate increases that would otherwise disproportionately impact residential and street lighting customers in conformance with D.04-04-042.

6. SDG&E shall continue to maintain its one-way balancing account for tree trimming vegetation management costs.

7. SDG&E shall establish a balancing account, subject to refund, for new incremental security costs at the San Onofre Nuclear Generating Station (SONGS) as imposed by Nuclear Regulatory Commission and discussed in this decision.

8. SDG&E shall apply the residential class revenue requirement allocation in conformance with D.04-02-057.

9. SoCalGas and SDG&E shall refine and enhance the ratemaking model spreadsheets before the next rate proceeding and eliminate all instances of manual data transfers within the models and for the tables and reports generated by the models to support the results of operations, rate base and other ratemaking tools.

10. We direct the interested parties to plan, schedule and conduct workshops in the first quarter of 2005 to develop a better format for presenting Shared Services in SoCalGas and SDG&E's next base revenue ratemaking proceeding.

11. SoCal Gas and SDG&E shall comply with the Commission's rate case processing plan, as modified herein, when they next file for any change in authorized base electric and gas revenue requirements.

12. In its upcoming Biennial Cost Adjustment Proceeding application, SoCalGas shall report on its gas storage field and compressor station utilization planning activities, as discussed in this order.

13. In the next rate proceeding for each company SoCalGas, SDG&E, and the Office of Ratepayer Advocates shall compare the credit analysis operations for these companies with other large utilities within and beyond California.

14. In its next rate proceeding, SDG&E shall provide a detailed analysis that considers alternatives for the replacement of trees and other vegetation.

15. Phase I of A.02-12-027 and A.02-12-028 is concluded. These consolidated proceedings and Investigation 03-03-016 remain open for Phase II.

16. Within 30 days following the entry of this order, the Commission will designate a Presiding Officer and Assigned Commissioner to conduct Phase III of this proceeding. Phase III will address the issues identified in Section III of the April 2, 2003 Scoping Memo issued in this proceeding. Applicants, SDG&E and SoCal Gas shall serve the supplemental testimony it filed on April 17, 2003 on all parties on the service list of this proceeding as the initial element in Phase III.

This order is effective today.

Dated ____________________________, at San Francisco, California.

APPENDIX A

List of Appearances

Applicant: Glen Sullivan, Attorney at Law, Keith Melville, Ronald Van De Leeden, and Bruce J. Williams, for Southern California Gas Company and San Diego Gas & Electric Company.

Interested Parties: Sheryl Carter, for Natural Resources Defense Council; Goodin, MacBride, Squeri, Ritchie & Day, LLP, by Brian Cragg, Attorney at Law, for Electric Generator Alliance; Department of the Navy, Norman J. Furuta, Attorney at Law, for Federal Executive Agencies; Morrison & Foerster, LLP, by Peter W. Hanschen, Attorney at Law, for Agricultural Energy Consumers Association; Adams, Broadwell, Joseph & Cardozo, by Marc D. Joseph, Attorney at Law, and David Marcus, for Coalition of California Utility Employees; Alcantar & Kahl, LLP, by Evelyn Kahl, Attorney at Law, for Indicated Producers; Ronald Liebert, Attorney at Law, for California Farm Bureau Federation; Bill Marcus, for The Utility Reform Network Act; Sutherland, Asbill & Brennan, by Keith McCrea, Attorney at Law, for California Manufacturers & Technology Association; Hanna and Morton, LLP, by Norman A. Pedersen, Attorney at Law, for Southern California Generation Coalition; Anderson & Poole, by Edward G. Poole, Attorney at Law, for Western Manufactured Housing Communities Association; Patrick J. Power, for City of Long Beach; James Weil, for Aglet Consumer Alliance; Alcantar & Kahl, LLP, Elizabeth Westby, for Indicated Producers; and Luce, Forward, Hamilton & Scripps, LLP, by John W. Leslie, Attorney at Law, for Coral Energy Resources, LP.

Intervenors: Andrew Wilson Bettwy, for Southwest Gas Company; Robert Gnaizda and Itzel Berrio, for The Greenlining Institute/Latino Issues Forum; Marcel Hawiger, Attorney at Law, for The Utility Reform Network Act; Manatt, Phelps & Phillips, LLP, David L. Huard, Attorney at Law, for ENRG; Gloria M. Ing, Attorney at Law, and Doug Porter, for Southern California Edison Company; Mark C. Moench, for Kern River Gas Transmission Company; Michael Shames, Attorney at Law, for Utility Consumers' Action Network; McCracken, Byers & Haesloop, LLP, Beth C. Tenney, Attorney at Law, for California City – County Street Light Association (CAL-SLA); Dennis

Zukowski, for Local 1483 Utility Workers Union of America; Bridget A. Branigan, Attorney at Law, for Southwest Gas Corporation; Bernardo R. Garcia , Marta Harris, and Javier Manzano, for The Utility Workers Union of America, AFL-CIO; and Hanna and Morton, LLP, by Scott A. Lehecka, Attorney at Law, for Southern California Generation Coalition.

Protestant: Monica McCrary, Attorney at Law, for Office of Ratepayer Advocates.

State Service: Donald J. Lafrenz, Richard A. Myers, Joyce Alfton, Amy W. Chan, for the Energy Division; Robert M. Pocta and Pamela T. Thompson, for the Office of Ratepayer Advocates.

(END OF APPENDIX A)

APPENDIX B

List of Acronyms and Abbreviations

A. - Application

ACR – Assigned Commissioner's Ruling

AHE49NS – Average Hourly Earnings for workers in the Electric, Gas and Sanitary Sectors of the U.S. economy

ALJ – Administrative Law Judge

BCAP – Biennial Cost Allocation Proceeding

Caltrans – California Department of Transportation

Coral – Coral Energy Resources, LP

COS – Cost of Service

CPS – Capital Project Summary

CSA – Comprehensive Settlement Agreement

CUE – California Utility Employees

D. – Decision

DOT – Department of Transportation

Edison – Southern California Edison Company

ERISA – Employee Retirement Income Security Act (of 1974)

FEA – Federal Executive Agency

GCSF – Gas Consumption Surcharge Fund

GEMS – Gas Energy Measurement Systems

GO – General Order

GRC – General Rate Case

Greenlining – Greenlining Institute

I. - Investigation

ICIP – Incremental Cost Incentive Proceeding

IRS – Internal Revenue Service

JCE – Joint Comparison Exhibit

JGTOTALMS – UCIS constructed Index

Local 483 – Local 483 UWUA

MPC – Margin Per Custome

NEIL – Nuclear Electric Insurance Ltd.

NGVA – Natural Gas Vehicle Account

NOI – Notice of Intent

NorthStar – NorthStar Consulting Group

NRC – Nuclear Regulatory Commission

O&M – Operating and Maintenance

OP – Ordering Paragraph

ORA – Office of Ratepayer Advocates

Otay Mesa – Otay Mesa Metering Station

PHC – Prehearing Conference

PG&E – Pacific Gas and Electric Company

PBR – Performance Based Ratemaking

R. – Rulemaking

RO – Results of Operations

Rules – Rules of Practice and Procedure

SANDAG – San Diego Association of Governments

SCGC – Southern California Generation Coalition

Sempra – Sempra Energy

SoCalGas – Southern California Gas Company

SONGS – San Onofre Nuclear Generating Station

SDG&E – San Diego Gas & Electric Company

SDG&E Settling Parties – Collectively are the following: SDG&E, ORA Greenlining, Coral and CUE

Sustainable Community – Sustainable Community Energy Systems

TGN - Transportadora de Gas Natural

TURN – The Utility Reform Network

UCAN – Utility Consumers' Action Network

UWUA – Utility Workers Union of America

(END OF APPENDIX B)

APPENDIX C
A.02-12-028
SAN DIEGO GAS & ELECTRIC COMPANY
TEST YEAR 2004
COMBINED SUMMARY OF EARNINGS
(Thousands in Dollars)

Line No.	Description		ADOPTED (2004$)
1	Base Margin		$ 939,401
2	Miscellaneous Revenues		35,931
3	Revenue Requirement		$ 975,333
	OPERATING & MAINTENANCE EXPENSES		
4	Clearing Accounts		$ 12,436
5	Nuclear Generation		43,841
6	Procurement		5,544
7	Transmission		5,216
8	Distribution		93,244
9	Uncollectibles ('04: 0.266%)		2,499
10	Customer Services		97,667
11	Administrative & General		134,795
12	Franchise Fees ('04E: 3.67% '04G: 2.13%)		31,269
13	Subtotal (2001$)		426,513
14	Labor Escalation		16,808
15	Non-Labor Escalation		6,199
16	Subtotal O & M (2004$)		$ 449,520
17	Depreciation & Amortization		201,050
18	Taxes on Income		94,962
19	Taxes Other Than on Income		39,584
20	Total Operating Expenses		$ 785,116
21	Return		$ 190,217
22	Rate Base		$ 2,168,947
23	Rate of Return		8.77%
24	Derivation of Base Margin		
25	O&M Expenses	(Line 16)	$ 449,520
26	Depreciation	(Line 17)	201,050
27	Taxes	(Line 18+19)	134,546
28	Return	(Line 21)	190,217
29	Revenue Requirement		975,333
30	Less: Misc. Revenues	(Line 2)	35,931
31	Base Margin	(Line 1)	$ 939,401

A.02-12-028
SAN DIEGO GAS & ELECTRIC COMPANY
TEST YEAR 2004
COMBINED ADMINISTRATIVE & GENERAL EXPENSE
(Thousands of Dollars)

Line No.	Account No.	Description	ADOPTED (2004$)
1	920	Administrative & Gen. Salaries	$ 24,731
2	921	Office Supplies & Exp	61,766
3	923	Outside Services Employed	5,025
4	924	Property Insurance	1,099
5	925	Injuries and Damages	16,012
6	926	Employee Pensions & Benefits	44,660
7	928	Regulatory Commission Exp	3,426
8	929	Company Use - Electricity	(1,185)
9	930	General Expenses	(31,545)
10	931	Rents	7,176
11	935	Maintenance of General Plant	9,436
12		Subtotal	$ 140,602
13	927	Franchise Fees	31,269
14		TOTAL COMBINED A & G	$ 171,871

APPENDIX C
A.02-12-028
SAN DIEGO GAS & ELECTRIC COMPANY
TEST YEAR 2004
COMBINED CUSTOMER SERVICES
(Thousands of Dollars)

Line No.	Account No.	Description	ADOPTED (2004$)
1	586	Meter Exp - Electric	$ 6,239
2	597	Meters - Electric	633
3	878	Meter & House Regulator Exp - Gas	2,872
4	879	Customer Install. Exp - Gas	10,119
5	902	Meter Reading Exp	12,458
6	903	Cust. Rec. & Collect. Exp	67,136
7	910	Customer Service & Info Exp	6,779
8		Subtotal	$ 106,237
9	904	Uncollectibles Accts	2,499
10	TOTAL COMBINED CUSTOMER SERVICES		$ 108,736

APPENDIX C
A.02-12-028
SAN DIEGO GAS & ELECTRIC COMPANY
TEST YEAR 2004
COMBINED CLEARING ACCOUNTS
(Thousands of Dollars)

Line No.	Account No.	Description	ADOPTED (2004$)
1	163	Purchasing and Warehouse	$ 1,767
2	184	Clearing Accounts	11,186
3		TOTAL CLEARING ACCOUNTS	$ 12,953

APPENDIX C
A.02-12-028
San Diego Gas and Electric Company
Working Cash Adjustment to Rate Base (Net Working Cash Requirement)
($ in Thousands)

		2004 Proposed					
Line No.	Description	Electric Expenses	Electric Average No. of Days Lag	Electric Dollar-Days Lag	Gas Expenses	Gas Average No. of Days Lag	Gas Dollar-Days Lag
1	Commodities - Electric	285,430	33.21	9,479,130			
2	Commodities - Gas				242,926	40.12	9,746,191
3	Payroll Expense						
4	F. I. C. A						
5	Federal/State Unemployment Insurance						
6	Incentive Compensation Plan						
7	Employee Benefits						
8	Goods & Services						
9	Corporate Charges						
10	Materials Issued from Stores						
11	Property/Ad Valorem/Franchise Taxes						
12	Federal Income Taxes - Current						
13	State Income Taxes - Current						
14	Income Taxes Deferred						
15	Depreciation Provision						
16	Amortization of Insurance Premiums						
17	Sub-total	708,020	37.45	26,516,152	208,066	39.71	8,261,831
18	Total Expenses Incl. Commodities	993,450	36.23	35,995,282	450,992	39.93	18,008,022
19	Revenue Lag Days		37.39			37.39	
20	Expense Lag Days (Line 18, Dollar-Days Lag / Expenses)		36.23			39.93	
21	Excess Lag Days (Line 19 - Line 20)		1.16			(2.54)	
22	Total Expenses Incl. Commodities (Line 18 Expenses)		993,450			450,992	
23	Lead/Lag Working Capital (Line 21 * Line 22 / 365)		3,150			(3,138)	
24	Operational Cash Requirement		17,771			6,962	
25	Working Capital Not Supplied by Investors		(14,746)			(5,778)	
26	Working Cash Adjustment to Rate Base (Line 23 to Line 25)		6,175			(1,954)	

APPENDIX C
A.02-12-028
San Diego Gas and Electric Company
Net-to-Gross Multiplier

Line No.	Description	Uncollectible and Franchise Fee Factor		State & Federal Tax Factor	N-T-G Multiplier	
		Electric	Gas	Electric and Gas	Electric	Gas
1	Revenues	1.000000	1.000000	1.000000	1.000000	1.000000
2	Uncollectible Tax Rate	0.002660	0.002660	0.000000	0.002660	0.002660
3	Uncollectible Amount Applied	1.000000	1.000000	1.000000	1.000000	1.000000
4	Less: Uncollectible (Line 2 * Line 3)	0.002660	0.002660	0.000000	0.002660	0.002660
5	Subtotal (Line 3 - Line 4)	0.997340	0.997340	1.000000	0.997340	0.997340
6	Franchise Fees Tax Rate	0.036700	0.021300	0.000000	0.036700	0.021300
7	Franchise Fees Amount Applied (Line 5)	0.997340	0.997340	1.000000	0.997340	0.997340
8	Less: Franchise Fees (Line 6 * Line 7)	0.036602	0.021243	0.000000	0.036602	0.021243
9	Subtotal (Line 7 - Line 8)	0.960738	0.976097	1.000000	0.960738	0.976097
10	S.I.T. Rate			0.088400	0.088400	0.088400
11	S.I.T. Amount Applied (Line 9)			1.000000	0.960738	0.976097
12	Less: S.I.T. (Line 10 * Line 11)			0.088400	0.084929	0.086287
13	Subtotal (Line 11 - Line 12)			0.911600	0.875809	0.889810
14	F.I.T. Rate			0.350000	0.350000	0.350000
15	F.I.T. Amount Applied (Line 13)			0.911600	0.875809	0.889810
16	Less: F.I.T. (Line 14 * Line 15)			0.319060	0.306533	0.311434
17	Net Operating Revenues (Line 15 - Line 16)			0.592540	0.569276	0.578376
18	Uncollectible and Franchise Fee Factor (1 / Line 9)	1.040867	1.024488			
19	State & Federal Tax Factor (1 / Line 17)			1.687650		
20	N-T-G Multiplier (1 / Line 17)				1.756617	1.728979

(END OF APPENDIX C)

APPENDIX D
A.02-12-028
SAN DIEGO GAS & ELECTRIC COMPANY
TEST YEAR 2004
GAS SUMMARY OF EARNINGS
(Thousands in Dollars)

Line No.	Description		ADOPTED (2004$)
1	Base Margin		$ 208,220
2	Miscellaneous Revenues		9,107
3	Revenue Requirement		$ 217,327
	OPERATING & MAINTENANCE EXPENSES		
4	Clearing Accounts		$ 3,835
5	Procurement		1,079
6	Transmission		5,216
7	Distribution		12,750
8	Uncollectibles ('04: 0.266%)		554
9	Customer Services		32,000
10	Administrative & General		39,786
11	Franchise Fees ('04: 2.13%)		4,435
12	Subtotal (2001$)		99,655
13	Labor Escalation		5,015
14	Non-Labor Escalation		1,489
15	Subtotal O & M (2004$)		$ 106,159
16	Depreciation & Amortization		47,634
17	Taxes on Income		19,534
18	Taxes Other Than on Income		8,539
19	Total Operating Expenses		$ 181,866
20	Return		$ 35,461
21	Rate Base		$ 404,343
22	Rate of Return		8.77%
23	Derivation of Base Margin		
24	O&M Expenses	(Line 15)	$ 106,159
25	Depreciation	(Line 16)	47,634
26	Taxes	(Line 17+18)	28,073
27	Return	(Line 20)	35,461
28	Revenue Requirement		$ 217,327
29	Less: Misc. Revenues	(Line 2)	9,107
30	Base Margin	(Line 1)	$ 208,220

APPENDIX D
A.02-12-028
SAN DIEGO GAS & ELECTRIC COMPANY
TEST YEAR 2004
GAS TRANSMISSION EXPENSE
(Thousands of Dollars)

Line No.	Account No.	Description	ADOPTED (2004$)	
		Operation		
1	850	Supervision & Engineering	$	1,070
2	851	System Con. & Load Dispatch		462
3	853	Compressor Station		808
4	855	Other Fuel & Pow-Comp. Sta.		204
5	856	Mains Exp		565
6	857	Measuring & Reg. Sta. Exp		126
7	859	Other Exp		849
8	860	Rents		1
9		Total Operation	$	4,083
		Maintenance		
10	861	Supervision & Engineering	$	63
11	863	Mains		381
12	864	Compressor Station Equipment		805
13	865	Measuring & Reg. Sta. Equip		289
14		Total Maintenance	$	1,539
15		TOTAL GAS TRANSMISSION	$	5,622

APPENDIX D
A.02-12-028
SAN DIEGO GAS & ELECTRIC COMPANY
TEST YEAR 2004
GAS DISTRIBUTION EXPENSE
(Thousands of Dollars)

Line No.	Account No.	Description		ADOPTED (2004$)
		Operation		
1	870	Supervision & Engineering	$	3,133
2	871	Load Dispatching		-
3	874	Mains & Services Exp		1,785
4	875	Meas. & Reg. Station. Exp		504
5	880	Other Exp		4,703
6	881	Rents		-
7		Total Operation	$	10,125
		Maintenance		
10	885	Supervision & Engineering	$	61
11	886	Structure & Improvements		-
12	887	Mains		1,679
13	889	Meas. & Reg. Station Exp		56
14	892	Services		976
15	893	Meters & House Regulators		750
16	894	Other Equipment		302
17		Total Maintenance	$	3,824
18		TOTAL GAS DISTRIBUTION	$	13,950

APPENDIX D
A.02-12-028
SAN DIEGO GAS & ELECTRIC COMPANY
TEST YEAR 2004
GAS ADMINISTRATIVE & GENERAL EXPENSE
(Thousands of Dollars)

Line No.	Account No.	Description	ADOPTED (2004$)
1	920	Administrative & Gen. Salaries	$ 7,434
2	921	Office Supplies & Exp	17,321
3	923	Outside Services Employed	1,415
4	924	Property Insurance	467
5	925	Injuries and Damages	5,166
6	926	Employee Pensions & Benefits	14,418
7	928	Regulatory Commission Exp	958
8	930	General Expenses	(10,461)
9	931	Rents	2,020
10	935	Maintenance of General Plant	2,619
11		Subtotal	$ 41,358
12	927	Franchise Fees	4,435
13		TOTAL GAS A & G	$ 45,793

APPENDIX D
A.02-12-028
SAN DIEGO GAS & ELECTRIC COMPANY
TEST YEAR 2004
GAS CUSTOMER SERVICES
(Thousands of Dollars)

Line No.	Account No.	Description	ADOPTED (2004$)
1	878	Meter & House Regulator Exp	$ 2,872
2	879	Customer Install. Exp	10,119
3	902	Meter Reading Exp	2,336
4	903	Cust. Rec. & Collect. Exp	17,094
5	910	Customer Service & Info Exp	2,600
6		Subtotal	$ 35,021
7	904	Uncollectibles Accts	554
8		TOTAL GAS CUSTOMER SERVICES	$ 35,575

APPENDIX D
A.02-12-028
SAN DIEGO GAS & ELECTRIC COMPANY
TEST YEAR 2004
GAS STORAGE EXPENSE
(Thousands of Dollars)

Line No.	Account No.	Description	ADOPTED (2004$)
		Operation	
1	841	Labor & Exp	$ 24
2		TOTAL GAS STORAGE	$ 24

APPENDIX D
A.02-12-028
SAN DIEGO GAS & ELECTRIC COMPANY
TEST YEAR 2004
GAS CLEARING ACCOUNTS
(Thousands of Dollars)

Line No.	Account No.	Description	ADOPTED (2004$)
1	163	Purchasing and Warehouse	$ 414
2	184	Clearing Accounts	3,584
3		TOTAL CLEARING ACCOUNTS	$ 3,998

(END OF APPENDIX D)

APPENDIX E
A.02-12-028
SAN DIEGO GAS & ELECTRIC COMPANY
TEST YEAR 2004
ELECTRIC SUMMARY OF EARNINGS
(Thousands in Dollars)

Line No.	Description		ADOPTED (2004$)
1	Base Margin		$ 731,181
2	Miscellaneous Revenues		26,825
3	Revenue Requirement		$ 758,006
	OPERATING & MAINTENANCE EXPENSES		
4	Clearing Accounts		$ 8,602
5	Nuclear Generation		43,841
6	Procurement		4,465
7	Distribution		80,494
8	Uncollectibles ('04: 0.266%)		1,945
9	Customer Services		65,667
10	Administrative & General		95,009
11	Franchise Fees ('04: 3.67%)		26,834
12	Subtotal (2001$)		326,858
13	Labor Escalation		11,793
14	Non-Labor Escalation		4,710
15	Subtotal O & M (2004$)		$ 343,361
16	Depreciation & Amortization		153,416
17	Taxes on Income		75,428
18	Taxes Other Than on Income		31,045
19	Total Operating Expenses		$ 603,250
20	Return		$ 154,756
21	Rate Base		$ 1,764,604
22	Rate of Return		8.77%
23	Derivation of Base Margin		
24	O&M Expenses	(Line 15)	$ 343,361
25	Depreciation	(Line 16)	153,416
26	Taxes	(Line 17+18)	106,473
27	Return	(Line 20)	154,756
28	Revenue Requirement		758,006
29	Less: Misc. Revenues	(Line 2)	26,825
30	Base Margin	(Line 1)	$ 731,181

APPENDIX E
A.02-12-028
SAN DIEGO GAS & ELECTRIC COMPANY
TEST YEAR 2004
ELECTRIC DISTRIBUTION EXPENSE
(Thousands of Dollars)

Line No.	Account No.	Description	ADOPTED (2004$)
		Operation	
1	580	Supervision & Engineering	$ 13,128
2	581	Load Dispatching	1,718
3	582	Station Exp	4,545
4	583	Overhead Line Exp	1,440
5	584	Underground Line Exp	3,311
6	585	Street Light & Signal Exp	507
7	587	Customer Installation Exp	2,549
8	588	Misc. Distribution Exp	16,023
9	589	Rents	140
10		Total Operation	$ 43,360
		Maintenance	
12	590	Supervision & Engineering	$ 1,235
13	591	Structures	60
14	592	Station Equipment	4,222
15	593	Overhead Lines	31,387
16	594	Underground Lines	5,364
17	595	Transformers	356
18	596	St. Light & Signal	45
19	598	Misc. Dist. Plant	423
20		Total Maintenance	$ 43,092
21		TOTAL ELECTRIC DISTRIBUTION	$ 86,452

APPENDIX E
A.02-12-028
SAN DIEGO GAS & ELECTRIC COMPANY
TEST YEAR 2004
ELECTRIC ADMINISTRATIVE & GENERAL EXPENSE
(Thousands of Dollars)

Line No.	Account No.	Description	ADOPTED (2004$)
1	920	Administrative & Gen. Salaries	$ 17,297
2	921	Office Supplies & Exp	44,445
3	923	Outside Services Employed	3,610
4	924	Property Insurance	632
5	925	Injuries and Damages	10,846
6	926	Employee Pensions & Benefits	30,242
7	928	Regulatory Commission Exp	2,468
8	929	Company Use - Electricity	(1,185)
9	930	General Expenses	(21,085)
10	931	Rents	5,156
11	935	Maintenance of General Plant	6,817
12		Subtotal	$ 99,244
13	927	Franchise Fees	26,834
14		TOTAL ELECTRIC A & G	$ 126,079

APPENDIX E
A.02-12-028
SAN DIEGO GAS & ELECTRIC COMPANY
TEST YEAR 2004
ELECTRIC CUSTOMER SERVICES EXPENSE
(Thousands of Dollars)

Line No.	Account No.	Description	ADOPTED (2004$)
1	586	Meter Exp	$ 6,239
2	597	Meters	633
3	902	Meter Reading Exp	10,122
4	903	Cust. Rec. & Collect. Exp	50,043
5	910	Customer Service & Info Exp	4,180
6		Subtotal	$ 71,216
7	904	Uncollectibles Accts	1,945
8		TOTAL ELECTRIC CUSTOMER SERVICES	$ 73,161

APPENDIX E
A.02-12-028
SAN DIEGO GAS & ELECTRIC COMPANY
TEST YEAR 2004
NUCLEAR GENERATION EXPENSE
(Thousands of Dollars)

Line No.	Account No.	Description	ADOPTED (2004$)
		Operation	
1	517	Supervision & Engineering	$ 10,311
2	519	Coolants and Water	140
3	520	Steam Exp	3,712
4	523	Electric Exp	1,381
5	524	Misc Nuclear Gen Exp	12,519
6	525	Rents	256
7		Total Operation	$ 28,319
		Maintenance	
8	528	Supervision & Engineering	$ 3,325
9	529	Structures	2,093
10	530	Reactor Equipment	3,078
11	531	Electric. Plant	2,836
12	532	Misc. Nuclear Plant	4,191
13		Total Maintenance	$ 15,522
14		TOTAL NUCLEAR GENERATION	$ 43,841

APPENDIX E
A.02-12-028
SAN DIEGO GAS & ELECTRIC COMPANY
TEST YEAR 2004
PROCUREMENT EXPENSE
(Thousands of Dollars)

Line No.	Account No.	Description		ADOPTED (2004$)
1	556	System Control & Load Dispatch	$	2,049
2	557	Generation and Other Expenses		2,825
3		Total Electric Procurement/Dispatch	$	4,874
4	807	Procurement Exp	$	1,198
5		TOTAL PROCUREMENT	$	6,071

APPENDIX E
A.02-12-028
SAN DIEGO GAS & ELECTRIC COMPANY
TEST YEAR 2004
ELECTRIC CLEARING ACCOUNTS
(Thousands of Dollars)

Line No.	Account No.	Description	ADOPTED (2004$)
1	163	Purchasing and Warehouse	$ 1,352
2	184	Clearing Accounts	7,602
3		TOTAL CLEARING ACCOUNTS	$ 8,955

(END OF APPENDIX E)

APPENDIX F
A.02-12-027
SOUTHERN CALIFORNIA GAS COMPANY
TEST YEAR 2004
SUMMARY OF EARNINGS
(Thousands of Dollars)

Line No.	Description		ADOPTED (2004$)
1	Base Margin		$ 1,465,618
2	Miscellaneous Revenues		44,868
3	Revenue Requirement		1,510,486
	Operating and Maintenance Expenses		
4	Clearing Accounts		55,830
5	Underground Storage		23,118
6	Transmission		38,321
7	Distribution		135,165
8	Customer Services		264,814
9	Uncollectibles ('04: 0.385%)		4,540
10	Administrative & General		361,205
11	Franchise Fees ('04: 1.5534%)		23,215
12	Subtotal (2001$)		$ 906,207
13	Labor Escalation Amount		37,638
14	Non-Labor Escalation Amount		11,428
15	Subtotal (2004$)		$ 955,273
16	O&M Reassignments		(55,563)
17	Total O&M Expenses		899,710
18	Depreciation		257,926
19	Taxes on Income		96,359
20	Taxes Other Than on Income		58,963
21	Total Operating Expenses		1,312,957
22	Return		197,529
23	Rate Base		2,275,679
24	Rate of Return		8.68%
25	Derivation of Base Margin		
26	O&M Expenses	(Line 17)	899,710
27	Depreciation	(Line 18)	257,926
28	Taxes	(Line 19+20)	155,321
29	Return	(Line 22)	197,529
30	Revenue Requirement		1,510,486
31	Less: Miscellaneous Revenues	(Line 2)	44,868
32	Base Margin	(Line 1)	$ 1,465,618

APPENDIX F
A.02-12-027
SOUTHERN CALIFORNIA GAS COMPANY
TEST YEAR 2004
DISTRIBUTION EXPENSE
(Thousands of Dollars)

Line No.	Account No.	Description	ADOPTED (2004$)
		Operation	
1	870	Supervision and Engineering	$ 37,329
2	875	Meas. & Reg. Station Exp	668
3	878	Meter & House Regulator Exp	446
4	880	Other Exp.	56,972
5	881	Rents	44
6		Total Operation	$ 95,459
		Maintenance	
7	886	Structures and Improvements	-
8	887	Mains	20,077
9	889	Meas. & Reg. Station Exp	1,371
10	892	Services	23,391
11	893	Meters & House Regulators	6,581
12	894	Other Equipment	-
13		Total Maintenance	$ 51,419
14		TOTAL DISTRIBUTION	$ 146,879

APPENDIX F
A.02-12-027
SOUTHERN CALIFORNIA GAS COMPANY
TEST YEAR 2004
TRANSMISSION EXPENSE
(Thousands of Dollars)

Line No.	Account No.	Description	ADOPTED (2004$)
		Operation	
1	850	Supervision and Engineering	$ 14,679
2	851	System Con. & Load Dispatching	2,736
3	852	Communications System Exp	-
4	853	Compressor Station	1,582
5	855	Other Fuel Power Compr Stations	1,447
6	856	Mains Exp	3,524
7	857	Measuring & Reg. Station Exp.	452
8	859	Other Exp	4,574
9	860	Rents	5,151
10		Total Operation	$ 34,146
		Maintenance	
11	861	Supervision & Engineering	-
12	862	Structures & Improvements	54
13	863	Mains	2,700
14	864	Compressor Station Equipment	4,028
15	865	Measuring & Reg. Station Equip.	478
16	867	Other Equipment	116
17		Total Maintenance	$ 7,376
18		TOTAL TRANSMISSION	$ 41,523

APPENDIX F
A.02-12-027
SOUTHERN CALIFORNIA GAS COMPANY
TEST YEAR 2004
ADMINISTRATIVE & GENERAL EXPENSE
(Thousands of Dollars)

Line No.	Account No.	Description	ADOPTED (2004$)
1	920	Administrative & Gen. Salaries	$ 31,811
2	921	Office Supplies and Exp	13,434
3	923	Outside Services Employed	129,695
4	924	Property Insurance	3,345
5	925	Injuries and Damages	37,778
6	926	Employee Pensions and Benefits	113,326
7	928	Regulatory Commission Exp	293
8	930	General Exp	5,447
9	931	Rents	23,723
10	935	Maintenance of General Plant	9,984
11		Subtotal	$ 368,836
12	927	Franchise Fees	23,215
13		TOTAL ADMIN. & GEN.	$ 392,051

APPENDIX F
A.02-12-027
SOUTHERN CALIFORNIA GAS COMPANY
TEST YEAR 2004
CUSTOMER SERVICES
(Thousands of Dollars)

Line No.	Account No.	Description	ADOPTED (2004$)
1	807	Procurement Exp	$ 3,954
2	879	Customer Install. Exp	98,581
3	901	Supervision	4,339
4	902	Meter Reading Exp	22,889
5	903	Cust. Rec. & Collect. Exp	140,766
6	905	Misc. Customer Accounts Exp	0
7	907	Supervision	382
8	908	Customer Assistance Expenses	13,124
9	909	Informational & Instructional Exp	2,788
10	910	Misc. Customer Svc & Info Exp	-
11		Subtotal	$ 286,824
12	904	Uncollectible Accts	4,540
13		TOTAL CUST. ACCTS. & COLL.	$ 291,364

APPENDIX F
A.02-12-027
SOUTHERN CALIFORNIA GAS COMPANY
TEST YEAR 2004
UNDERGROUND GAS STORAGE EXPENSE
(Thousands of Dollars)

Line No.	Account No.	Description	ADOPTED (2004$)
		Operation	
1	814	Supervision and Engineering	$ 7,340
2	815	Maps and Records	8
3	816	Wells Exp	2,523
4	817	Lines Exp	57
5	818	Compressor Station Exp	2,664
6	820	Measuring & Regulating Station Exp	-
7	821	Purification Exp	316
8	824	Other Exp	3,297
9	825	Storage Well Royalties	476
10	826	Rents	160
11		Total Operation Exp	$ 16,841
		Maintenance	
12	830	Supervision & Engineering	$ -
13	831	Structures and Improvements	20
14	832	Reservoirs and Wells	2,423
15	833	Lines	1,295
16	834	Compressor Station Equipment	3,668
17	835	Measuring & Reg Station Equipment	152
18	836	Purification Equipment	802
19	837	Other Equipment	3
20		Total Maintenance Exp	$ 8,364
21		TOTAL UNDERGROUND STORAGE	$ 25,205

APPENDIX F
A.02-12-027
SOUTHERN CALIFORNIA GAS COMPANY
TEST YEAR 2004
CLEARING ACCOUNTS
(Thousands of Dollars)

Line No.	Account No.	Description	ADOPTED (2004$)
1	163	Purchasing & Warehouse	$ 10,793
2	184	Clearing Accounts	47,458
3		TOTAL CLEARING ACCOUNTS	$ 58,251

APPENDIX F
A.02-12-027
Southern California Gas Company
Net-to-Gross Multiplier

Line No.	Description	Forecast 2004 Uncollectible and Franchise Fee Factor	State & Federal Tax Factor	Net-to-Gross Multiplier
1	Revenues	1.000000	1.000000	1.000000
2	Uncollectible Tax Rate	0.003097	0.000000	0.003097
3	Uncollectible Amount Applied	1.000000	1.000000	1.000000
4	Less: Uncollectible (Line 2 * Line 3)	0.003097	0.000000	0.003097
5	Subtotal (Line 3 - Line 4)	0.996903	1.000000	0.996903
6	Franchise Fees Tax Rate	0.015840	0.000000	0.015840
7	Franchise Fees Amount Applied (Line 5)	0.996903	1.000000	0.996903
8	Less: Franchise Fees (Line 6 * Line 7)	0.015791	0.000000	0.015791
9	Subtotal (Line 7 - Line 8)	0.981112	1.000000	0.981112
10	S.I.T. Rate		0.088400	0.088400
11	S.I.T. Amount Applied (Line 9)		1.000000	0.981112
12	Less: S.I.T. (Line 10 * Line 11)		0.088400	0.086730
13	Subtotal (Line 11 - Line 12)		0.911600	0.894382
14	F.I.T. Rate		0.350000	0.350000
15	F.I.T. Amount Applied (Line 13)		0.911600	0.894382
16	Less: F.I.T. (Line 14 * Line 15)		0.319060	0.313034
17	Net Operating Revenues (Line 15 - Line 16)		0.592540	0.581348
18	Uncollectible and Franchise Fee Factor (1 / Line 9)	1.019252		
19	State & Federal Tax Factor (1 / Line 17)		1.687650	
20	N-T-G Multiplier (1 / Line 17)			1.720140

APPENDIX F
A.02-12-027
Southern California Gas Company
Working Cash Adjustment to Rate Base (Net Working Cash Requirement)
($ in Thousands)

Line No.	Description	2004 ADOPTED Expenses	Average No. of Days Lag	Dollar-Days Lag
1	Commodities - Gas	1,577,761	42.29	66,723,513
2	Payroll Expense			
3	F. I. C. A			
4	Federal/State Unemployment Insurance			
5	Incentive Compensation Plan			
6	Employee Benefits			
7	Goods & Services			
8	Corporate Charges			
9	Real Estate Rental			
10	Materials Issued from Stores			
11	Property/Ad Valorem/Franchise Taxes			
12	Federal Income Taxes - Current			
13	State Income Taxes - Current			
14	Income Taxes Deferred			
15	Depreciation Provision			
16	Amortization of Insurance Premiums			
17	Sub-total	1,463,818	34.69	50,785,717
18	Total Expenses Incl. Commodities	3,041,579	38.63	117,509,229
19	Revenue Lag Days		38.41	
20	Expense Lag Days (Line 18, Dollar-Days Lag / Expenses)		38.63	
21	Excess Lag Days (Line 19 - Line 20)		(0.22)	
22	Total Expenses Incl. Commodities (Line 18 Expenses)		3,041,579	
23	Lead/Lag Working Capital (Line 21 * Line 22 / 365)		(1,869)	
24	Operational Cash Requirement		26,708	
25	Working Capital Not Supplied by Investors		(48,450)	
26	Working Cash Adjustment to Rate Base (Line 23 to Line 25)		(23,611)	

(END OF APPENDIX F)

APPENDIX G

"ATTACHMENT C TO SETTLEMENT AGREEMENT FOR SOCALGAS IN A.02-12-027"

SETTLEMENT AGREEMENT BETWEEN THE GREENLINING INSTITUTE AND SOCALGAS AND SDG&E

Southern California Gas Company (SoCalGas) and San Diego Gas and Electric (SDG&E) together, the "Utilities" – enter into this agreement with the Greenlining Institute (Greenlining) for the next five years, with the possibility of renewal for an additional five years.

Workforce Diversity

SoCalGas and SDG&E will report annually the race, ethnicity and gender of Sempra's external Board of Directors and the Utilities' workforce. This report will be to Greenlining in the same format that this information is provided to Fortune Magazine in connection with Fortune Magazine's annual diversity survey. It is understood that if the CPUC requires a format that seeks essentially the same objective, Greenlining will agree to that CPUC-required information instead. Similarly, as part of this commitment, both Utilities agree to discuss efforts in each of these areas in an oral presentation to be held at each of the annual meetings agreed to below. All diversity information shall be subject to confidentiality agreements to the extent that this information will not be used in media releases or similar public relations pieces unless mutually agreed upon, but may be used for discussion purposes with Greenlining member organizations.

The Utilities and/or Sempra commit to making their very best good faith efforts to be among the top ten "Best Companies for Minorities" in the Fortune Magazine annual diversity survey. The Utilities also commit to their best good faith efforts to be leaders among major California utility companies in each of the reported categories.

The Utilities will take a leadership role in Greenlining's Corporate Community Diversity Partnership, in which approximately two-dozen Fortune 500 Companies – including several major utility companies – work together to promote diversity in the University of California system, California State University system and Corporate America.

Supplier Diversity

Regarding supplier diversity, the Utilities commit to good faith efforts to being national leaders among all utility companies. The Utilities recognize that Greenlining sees 25% minority suppliers as an important objective and other utilities are seeking this objective. Although the Utilities view their efforts to be leaders in Supplier Diversity in an even broader context, and therefore, the Utilities will continue to discuss the viability of this objective and other related objectives in light of our external contract requirements, as well as the demographics in the communities in which they operate. The Utilities' annual reports regarding contracting with diverse business enterprises will be filed pursuant to the CPUC's GO 156 requirements.

Philanthropy

The Utilities will continue to abide by the CPUC's General Order 77K relating to the detailed reporting of philanthropy. The Utilities will also provide Greenlining with a description of each relevant organization as provided by the organizations themselves. SoCalGas and SDG&E remain committed to continuing and improving upon their philanthropic stewardship within the communities each utility serves. In 2002 alone, SoCalGas and SDG&E gave over $4 million in charitable contributions to a variety of worthy organizations. SoCalGas and SDG&E also are committed to continuing and improving upon their outreach to racial and ethnic minority groups, including low income and underserved communities. In addition, both Utilities will agree to continue to strive to be leaders in philanthropy to low-income and minority non-profits amongst all the major utility companies operating in California. The Utilities will provide to Greenlining the total charitable contribution amounts as well as the percent of pre-tax income such contributions represent. Similarly, as part of this commitment, both Utilities agree to discuss efforts in each of these areas in an oral presentation to be held at each of the annual meetings as agreed to below.

Annual Meetings

Both Utilities will meet annually with Greenlining to discuss workforce diversity, supplier diversity and philanthropy. The Chief Executive Officer of both Utilities and/or the Utilities' President, as well as Sempra's Senior Vice President of Human Resources, will attend these meetings.

Other Issues

This agreement resolves any and all other issues Greenlining raised in A.02-12-027/A.02-12-028.

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Robert L. Gnaizda, General Counsel Itzel D. Berrio, Deputy General Counsel The Greenlining Institute	William L. Reed, Senior Vice President Regulatory Affairs SDG&E and SoCalGas

(END OF APPENDIX G)