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ORIGINAL

Decision No. 84618

BEFORE THE PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

In the Matter of the Application of SAN DIEGO GAS & ELECTRIC COMPANY for Authority to Increase its Fuel Cost Adjustment Billing Factor for Electric Service to Offset Increased Fuel Costs.	Application No. 55506 (Filed February 21, 1975)

(Appearances listed in Appendix A)

OPINION

By this application San Diego Gas & Electric Company (SDG&E) originally requested a total annual increase in rates and charges of $20,397,200 annually. Applicant requests authority to increase its fuel cost adjustment billing factor for electric service to offset increased fuel costs.

A prehearing conference was held March 19, 1975 at Los Angeles, California. Subsequently, 10 days of public hearings were held from April 14, 1975 through May 13, 1975 before Commissioner William Symons, Jr. and Examiner Charles E. Mattson at La Mesa and Los Angeles, California.

The applicant submitted a memorandum of points and authorities dated May 13, 1975. The staff and the city of San Diego mailed written responses on or before May 23, 1975. The matter is now under submission.

Applicant's Request

By Decision No. 81517 dated June 26, 1973 we authorized applicant to file a fuel cost adjustment (FCA) billing factor. This FCA authorized SDG&E to file revisions to its electric department tariff rates and schedules to reflect adjustments for increases or decreases in the cost of fuel used in SDG&E's generating plants.

By Resolution No. E-1440 dated December 30, 1974 we rejected a fuel cost adjustment requested by SDG&E's Advice Letter No. 380-E filed December 2, 1974. By that resolution we ordered that applicant's next fuel clause adjustment be filed by formal application and be set for hearing under the Commission's Rules of Practice and Procedure. The present application requests an increase in SDG&E's fuel cost adjustment billing factor to become effective April 1, 1975. It is filed pursuant to the Commission's direction in paragraph 11 of Resolution No. E-1440.

The FCA calculation presented by SDG&E is set forth in Exhibit C attached to the application. Appendix A of Exhibit C sets forth the electric department fossil fuel cost estimates for the 12 months ended March 31, 1976. Based on estimated sales and fuel use for the 12 months beginning April 1, 1975 and fuel prices in effect April 1, 1975 SDG&E requests a revision of the fuel cost adjustment billing factor to reflect increased prices of residual oil, diesel oil, and natural gas. The 12 months' projection also reflects decreased revenue requirements due to increased natural gas availability and changes in system load and assumed purchased power availability.

Applicant's basic request is for an increase in the fuel cost adjustment billing factor to 0.174 cents per kilowatt-hour. The estimated increase in annual gross revenues due to the increase factor is $14,028,100. This is a reduction of the original request which was $20,397,200.

Applicant's calculation of increased fuel expense in the requested fuel cost adjustment billing factor is set forth in Exhibit 3, Appendix A, Sheet 4. Applicant's fossil fuel cost estimates are based upon 12 months ended March 31, 1976.

Staff Position

The staff recommended a fuel cost billing factor of 0.016 cents per kilowatt-hour and a gross revenue increase of $1,289,900. The staff recommendation is set forth in Exhibit 9. This staff recommendation was subsequently revised to a recommended factor of 0.018 cents per kilowatt-hour and a gross revenue increase of $1,451,200. The staff's initial estimates in Exhibit 9 were revised to reflect the proper allowance for uncollectibles and franchise fees in the computation.

The major difference between the staff and the utility in the computation of the fuel clause arises from the net gain before taxes of $9,326,000 received by the applicant on sales of excess residual fuel oil in 1974. Based upon the conditions in 1974 applicant was able to sell oil at a profit. The gains from sales of excess fuel oil sold were, according to the staff, a by-product of the oil market supply conditions, California weather, the availability of hydroelectric power in the Pacific Northwest, as well as a result of utility management action.

The staff witness concluded that gains from oil sales should have been reflected in 1974 fuel cost factors through lower inventory prices and lower fuel oil costs. Since these gains were not reflected in past fuel clause charges, the staff recommends that the present calculation of the fuel clause factor reflect a reduction of 0.112 cents per kilowatt-hour to reflect the fuel sale gains in 1974 in excess of $9 million.

City of San Diego Position

The city of San Diego (City) appeared in these proceedings as an interested party. A witness on behalf of the City presented Exhibits 5 and 12, setting forth the City's position on the requested FCA.

Briefly stated, the City recommended that a cash refund be ordered to SDG&E customers. The City's recommended total cash refund is $29.2 million. This total is comprised of past "overcharges" calculated as $19 million since January, 1974, a $9.4 million gain on 1974 fuel oil sales, and $800,000 interest on the amount of fuel oil gain.

DISCUSSION

Fuel Oil Sales

There is no substantial dispute regarding the events of 1974 which resulted in the profitable fuel oil sales by SDG&E. By virtue of prudent management policy, the utility had adequate supplies of fuel oil for expected 1974 conditions. However, 1974 was an abnormal year. Substantial conservation by customers and warm weather reduced expected requirements. Moreover, SDG&E had abnormally large amounts of lower-cost purchased power and natural gas available in 1974. Not only did SDG&E have excess fuel oil supplies available, market conditions enabled SDG&E to sell fuel oil at a profit.

The gain from fuel oil sales is excluded by SDG&E in its calculation of the FCA. SDG&E argues that the fuel oil transactions are not a part of the utility operations of SDG&E. The fuel oil sold was never included in SDG&E's inventory and was never in the San Diego service area. Under these circumstances, SDG&E accounted for the gains from the fuel oil sales in Account No. 421 (miscellaneous non-operating income) and excluded the fuel oil sales from consideration in this proceeding.

The staff included the gain from fuel oil sales in its calculation of the FCA. The staff would, in effect, reduce the FCA over a subsequent 12-month period to reflect the $9.4 million gain from the fuel oil sales. The staff Finance and Accounts witness recommended that the gain or loss on fuel oil sales be reflected in Account No. 456 (other electric revenues). The staff witness from the utilities division would have reduced the FCA charges to the ratepayer in 1974, had he known of the gain. In short, the staff views the gain from fuel oil sales as properly an offset to fuel cost increases charged the ratepayer.

We agree with the staff view regarding the fuel oil sales gain. The ratepayer has been requested to conserve energy to meet the problem of declining supplies. The ratepayer has been subjected to ever higher rates under the operation of the FCA as fuel oil supply shortages have forced market prices upward. The ratepayer is subjected to higher rates in order to enable SDG&E to meet its continuing fixed costs when sales and revenues decline due to conservation. Under these circumstances, it would be wholly unrealistic, and fundamentally unfair to ratepayers, to exclude the gain from sale of fuel oil by SDG&E in 1974 from the FCA. The profit from fuel oil sales appears directly related to the utility's operations in 1974. The net gain realized by SDG&E will be included in our calculation of the fuel costs of SDG&E.

The City's Refund Request

We have outlined the basic request presented by the City's witness. The City's suggestion that a cash refund should be ordered is presumably based upon the 1974 recorded results of SDG&E's operations. Accordingly, we can contrast the City's calculated $29 million refund with the 1974 results of operations. The evidence is that SDG&E achieved a return of 8.18 percent in 1974, excluding the gain from fuel oil sales. It appears that SDG&E did not achieve the 8.75 rate of return we found reasonable for 1974 even when $20 million of the City's calculated overcollections are included in the results. The addition of net revenues from the fuel oil sales to the 1974 recorded results would result in earnings in excess of 8.75 percent.

We have determined that the inclusion of the net gain from the fuel oil sales will be included in our calculation of the FCA. We cannot adopt the City's position that SDG&E 1974 revenues included an additional $20 million which must be refunded.

The Adopted Fuel Cost Adjustment

A reasonable estimate of the fuel cost increases to be incurred by SDG&E is set forth in the staff's Exhibit 9, Table I. The annual gross revenue increase (before consideration of an adjustment for oil sales in 1974) is $10,480,000. In accordance with the staff's evidence, we find that these higher fuel costs commenced April 1, 1975.

We further conclude that the gain before tax from fuel oil sales in 1974 was $9.4 million, as set forth in staff Exhibit 8A, Schedule A. The net revenue gain by SDG&E in 1974 is estimated as approximately $6.7 million after taxes. For the purpose of calculating the FCA as of April 1, 1975 we will accept the applicant's claim that it will have no federal income tax on the FCA revenue. Accordingly, we will include $6.7 million as the gain from fuel oil sales in calculation of the FCA.

The basic revenue requirement associated with increased fuel costs is $10,480,000. We will offset this revenue increase by the net gain from fuel oil sales. However, we will also recognize that SDG&E has, in practical effect, failed to collect the increased fossil fuel costs since April 1, 1975. The utility has in fact absorbed increased fuel costs which we may regard as an offset to the 1974 gain on sale of fuel oil. The reduction in the April 1, 1975 FCA revenue requirement associated with the 1974 net gain from fuel oil sales is $6.7 million. This calculated adjustment will be a reduction applicable to each subsequent FCA for a 12-month period beginning July 1, 1975.

Findings

1. By this application SDG&E requested an increase in its FCA billing factor for electric service of 0.174 cents per kilowatt-hour. The estimated gross revenue increase is $14,028,100 (5-1/2 percent).

2. The FCA is based upon fuel costs as of April 1, 1975.

3. The basic adjustment factor as calculated in Exhibit 9, Table I is a reasonable estimate of the factor required to meet increased fuel costs. Based on fuel costs as of April 1, 1975 and estimated fuel requirements and electric system sales for the 12 months commencing April 1, 1975, the FCA billing factor would be 0.130 cents per kilowatt-hour.

4. SDG&E achieved a recorded rate of return substantially below 8.75 percent in 1974, including all amounts collected under the FCA but excluding gains from sale of fuel oil.

5. SDG&E sold fuel oil in 1974 at a gain before taxes of $9,409,343. The net profit to SDG&E from these sales was approximately $6.7 million in 1974.

6. An FCA of 0.130 cents per kilowatt-hour would increase SDG&E's gross revenues by $10,480,000 annually.

7. The calculation of the FCA as of April 1, 1975 reflecting a net oil sales adjustment (reduction) of the factor is set forth in Appendix B. The calculation is based upon the estimates adopted by Finding No. 3 above.

8. Based upon the staff estimates as set forth in Exhibit 9, Table I, which we find to be reasonable, the adopted FCA factor is 0.052 as set forth in Appendix B attached.

9. The application of a residual oil sales adjustment (reduction) of 0.078 cents per kilowatt-hour for 12 months commencing July 1, 1975 will reflect the net gain from oil sales less reasonable recognition of offsetting oil cost increases incurred to July 1, 1975.

10. The estimated gross annual revenue increase from the FCA factor of 0.052 cents per kilowatt-hour is $4,192,000 (an increase of approximately 1.6 percent).

Conclusion

The application should be granted to the extent set forth in the following order, and in all other respects denied.

O R D E R

IT IS ORDERED that:

1. San Diego Gas & Electric Company (SDG&E) is authorized to file an increase in its fuel cost adjustment billing factor of 0.052 cents per kilowatt-hour and on not less than five days' notice to the Commission and to the public, to make such revised tariffs effective five days after such filing.

2. SDG&E's fuel cost adjustment billing factor authorized herein has been reduced by a residual oil sales adjustment of 0.078 cents per kilowatt-hour. The 0.078 adjustment shall be applicable to SDG&E's fuel cost adjustment billing factor for a 12-month period commencing July 1, 1975.

3. SDG&E shall file a proposed fuel cost adjustment billing factor with this Commission at three months' intervals, commencing on or before July 1, 1975, said factor to become effective on or after July 1, 1975 and at three months' intervals thereafter, provided that the Commission approves each such fuel cost adjustment.

The effective date of this order is the date hereof.

Dated at San Francisco, California, this 1st day of JULY, 1975.

[signature]
President

William Symons Jr.

Vernon L. Sturgeon

[signature]

Commissioners

Commissioner Leonard Ross, being necessarily absent, did not participate in the disposition of this proceeding.

A. 55506 MN/cp *

APPENDIX A

LIST OF APPEARANCES

Applicant: Chickering & Gregory, by Sherman Chickering, C. Hayden Ames, Allan Thompson, David Lawson, III; Gordon Pearce, Attorneys at Law, John H. Woy, for San Diego Gas & Electric Company.

Interested Parties: John W. Witt, City Attorney, by William S. Shaffran and Ronald L. Johnson, Attorneys at Law, Manley W. Edwards for the City of San Diego; Brobeck, Phleger & Harrison, by Thomas G. Wood and Gordon E. Davis, Attorneys at Law, for California Manufacturers Association; William Knecht and William Edwards, Attorneys at Law, for California Farm Bureau Federation.

Commission Staff: Patrick J. Power and Elinore C. Morgan, Attorneys at Law, John E. Johnson and John Gibbons.

APPENDIX B

Basic Adjustment Factor: 0.130 cents/kwhr
Residual Oil Sales Adjustment (Net): (0.078) cents/kwhr
Adopted Factor: 0.052 cents/kwhr
Estimated Revenue Increase: $4,192,000

(Negative)