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Decision No. 84905

ORIGINAL

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 Gas Rates and Charges to Offset the Increased Unit Costs of Purchased Gas Resulting From Decision No. 84512.	Application No. 55774 (Filed June 30, 1975)
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 Resulting From Decision Nos. 84512 and 84575.	Application No. 55775 (Filed June 30, 1975; amended July 29, 1975)

(List of Appearances in Appendix A)

OPINION

By Application No. 55774 San Diego Gas & Electric Company (SDG&E) requests authority to increase its gas rates and charges to increase annual revenues by $733,800 (0.75 percent). SDG&E was authorized to file Application No. 55774 as a purchased gas adjustment clause to reflect increased unit costs of purchased gas by our Decision No. 84512 dated June 10, 1975 in Southern California Gas Company's (SoCal) Application No. 53797 filed January 19, 1973.

By its original filing in Application No. 55775 SDG&E requested increases in electric rates in order to increase gross revenues approximately $11,011,000 annually (3.5 percent). Application No. 55775 requests increased electric rates in order to offset increased fuel costs resulting from our Decision No. 84512 (SoCal). On July 29, 1975 SDG&E amended its Application No. 55775 to reflect additional cost increases requested by Advice Letter 386-E (filed May 30, 1975). The amended application requests electric revenue increases of $37,029,400 annually (13.2 percent).

Applications Nos. 55774 and 55775 were consolidated for hearing. Hearings were held August 4 and 5, 1975 at San Diego, California before Examiner Charles E. Mattson. On August 5, 1975 the consolidated matters were taken under submission subject to the filing of late-filed exhibits and written statements. Late-filed Exhibits Nos. 17 and 10 has been received in evidence. Closing statements have been received from the Commission staff, applicant, and the city of San Diego.

Preliminary Statement

Application No. 55774 involves a determination of the purchased gas adjustment (PGA) necessary to meet increasing unit cost of gas to SDG&E. The revision of the PGA became necessary as a result of our Decision No. 84512 (SoCal). Briefly stated, the SoCal decision resulted in a reduction in the natural gas supply available to SDG&E. As a consequence of declining gas supply, SDG&E's PGA required revision to reflect the increasing unit cost of gas to the SDG&E system.

The original Application No. 55775 was a direct consequence of the reduction in the gas available to the electrical department of SDG&E. The decline in gas supply resulted in a substitution of relatively higher-cost fuel oil for the natural gas fuel available to the electrical department (low-sulphur residual fuel oil is over twice the present cost of natural gas). Moreover, residual fuel oil and diesel fuel prices had increased and SDG&E by Advice Letter 386-E dated May 30, 1975, had requested revision of its fuel cost adjustment billing factor as of July 1, 1975. Application No. 55775 as amended reflected the increased fuel costs as of July 1, 1975, as well as the decreasing supply of relatively cheaper natural gas.

Application No. 55774 - Purchase Gas Adjustment

At hearing, a witness on behalf of the Commission staff presented the staff recommendation regarding the purchase gas adjustment. Exhibit 12 sets forth the detailed staff recommendation. The staff recommended that the purchased gas adjustment be increased .800 cents per M^{2}btu for Schedule G-54 (interdepartmental sales) and all other schedules be increased .059 cents per therm. The staff witness estimated that these increases in the PGA would result in an annual revenue increase of $382,600. At hearing applicant agreed to accept this staff recommendation. Applicant had presented Exhibit 5 which requested an annual revenue increase in gas rates of $733,800.

A witness on behalf of the city of San Diego (City) projected the results of operations for the gas department of SDG&E for 12 months ending June 30, 1976 and concluded that increases in gas revenues were not required. The difficulty with the presentation of the city of San Diego is that it does not apply a purchased gas adjustment to reflect the increasing unit cost of gas for SDG&E. The City would rely upon estimated future results of operations. An examination of the City's presentation establishes that gas revenues and certain expenses were based upon April-May, 1975 levels, with the explanation that the results would be comparable to the July 7, 1975 rates used by applicant since the difference in revenues and expenses would be covered by offset procedures. This proposition assumes that the purchased gas adjustment will necessarily be applied to meet increasing costs of gas. However, the City's conclusion that the PGA increase is not required in the present case would appear to be contrary to its assumption that offset procedures will be followed.

At this time it appears reasonable to continue to apply the purchased gas adjustment procedure to offset declining gas supplies and increasing gas costs to SDG&E. To the extent that the City's estimated results of operations (which show earnings substantially in excess of those estimated by SDG&E) may be correct, the Commission has before it SDG&E's general rate increase Applications Nos. 55627 and 55628. There will be ample opportunity in the near future to review the reasonableness of the earnings levels of SDG&E. The applicant's request for immediate emergency interim rate relief is under submission in the general rate cases and the City is a party in that proceeding.

Billing Factor for
Electric Service

At hearing applicant presented testimony in support of its Exhibit 6, which requested an increase in the fuel cost adjustment (FCA) billing factor of 0.454 cents per kilowatt hour, an estimated increase in annual revenues of $37,029,400 (13.2 percent). A witness on behalf of the Commission staff recommended an increase in the billing factor of 0.316 cents per kilowatt hour, resulting in an estimated revenue increase of $25,983,000. The Commission staff's Exhibit 13, Table 1, sets forth a summary of the differences between SDG&E and the staff forecasts which resulted in the respective estimated revenue increases.

Once again, SDG&E accepted the staff estimates with two exceptions. SDG&E did not accept (1) the residual fuel oil prices used by the staff witness and (2) the net heat rate in Btu/kwhr used in the staff forecast for the 12 months ended June 30, 1976.

The applicant prepared late-filed Exhibit 10 which sets forth applicant's revised fuel clause adjustment (FCA) billing factor. The SDG&E FCA billing factor after adoption of all staff forecasts with the exception of the heat rate and residual oil prices relied upon by SDG&E result in an increase in the billing factor of 0.382 cents per kilowatt hour producing an estimated annual revenue increases of $31,410,000. (See late-filed Exhibit 10, page 2, alternate fuel clause adjustment billing factor proposal B.)

Residual Fuel Oil Price

The staff witness necessarily relied upon the oil prices known to be in effect of the first day of the forecast period (July 1, 1975). At the hearing of August 5, 1975 SDG&E presented testimony in support of Exhibit 11, regarding the residual fuel oil prices as of July 1, 1975. The data presented in Exhibit 11 became available after July 1, 1975. This price information was not available to the staff when they prepared their estimates. Since there is no dispute as to the accuracy of the prices established by Exhibit 11, we will recognize the actual cost of residual fuel oil from SDG&E's suppliers as of July 1, 1975.

The staff brief expresses concern over the lack of notice of recent fuel price data. We would expect in the future that SDG&E will promptly notify the staff when fuel price increases are verified from suppliers. SDG&E should promptly supply staff with copies of all data received. Moreover, we must recognize that there may be refundable charges in the fuel prices, particularly in view of the uncertainty of the federal tariff on imported oil. To the extent that any refunds may become available to SDG&E in the future, all such refunds should be promptly passed through to the ratepayers.

The Staff's FCA Billing Factor at July 1, 1975 Prices

Late-filed Exhibit 10, page 1, alternate fuel clause adjustment fuel billing factor Proposal A, sets forth the calculation of the fuel clause adjustment billing factor based on the staff's estimates, but using July 1, 1975 prices for residual oil purchases. The staff estimates, at known residual oil prices, would result in an increased FCA billing factor of 0.353 cents per kilowatt hour and an estimated increase in annual revenue of $29,025,500. Since we see no reason not to use the known July 1, 1975 prices, the only remaining difference between the staff and the applicant's estimates is attributable to the net heat rate Btu/kwhr.

The Net Heat Rate Estimate

In the fuel adjustment calculation presented by applicant, a system average heat rate of 11,356 Btu/kwhr was used. A witness on behalf of applicant testified that this heat rate was obtained by using individual generation unit heat rates combined through a computer program through the forecast period. The heat rate was produced by inputs to a computer program simulating system operations. The staff utilized a system average heat rate of 10,872 Btu/kwhr, a figure utilized in applicant's most recent fuel clause proceeding.

Applicant attacks the staff's use of the last utilized heat rate for the SDG&E system in its last fuel clause proceeding on the basis that the staff has made no independent investigation or recommendations for an up-dated estimate of the heat rate. However, the staff presented testimony that the heat rates assumed by applicant are substantially higher than past heat rates, and that no adequate explanation has been presented by applicant to the staff for this increase.

Applicant's witnesses stated that as the area system requirements for generation increase, less efficient generation units are used and as a result the heat rate increases. Applicant also presented Exhibit 9 in support of its annual fossil fuel heat rate. Exhibit 9 sets forth a trend line developed by a use of recorded experience from 1969 through 1974 and the estimated 1975 and 1976 as expected annual fossil fuel heat rates.

If the Exhibit 9 trend line is accurate, then the increase in fossil fuel generation sharply increases the system heat rate Btu/kwhr. However, the staff witness testified that he did not accept the trend line set forth on Exhibit 9 as correct. The staff witness stated that at 80 percent load factor a generation unit efficiency would tend to flatten out, and the straight line relationship set forth in Exhibit 9 is incorrect. If the staff is correct the relationship of generation to system heat rate should establish a curve that would tend to flatten as generation increased.

In the fuel clause calculation adopted herein, we will utilize the staff heat rate. We do not have adequate evidence in this record that the computer program utilized by applicant to produce the system average heat rate has in fact produced results which correspond to actual experience. If applicant's position regarding the heat rate is correct, we would expect that actual experience would demonstrate the accuracy of and reliability of the trend line set forth on Exhibit 9. In future fuel clause proceedings applicant will have ample opportunity to present evidence that actual experience establishes that the rapidly increasing heat rate is a reasonable assumption. Based on the evidence available in this proceeding, we decline to adopt a heat rate level substantially in excess of past actual experience.

Conclusion

We have previously adopted the revised purchased gas adjustment set forth in Exhibit 12. This purchased gas adjustment is based on the staff estimates.

Based upon the adoption of the known July 1, 1975 prices for residual oil purchases and the net heat rate recommended by the staff, we adopt the FCA billing factor adjustment as set forth in late-filed Exhibit 10, page 1, alternate fuel clause adjustment billing factor proposal A. This fuel cost adjustment billing factor is based upon staff estimates with the single exception that we adopt the known July 1, 1975 prices for residual fuel oil. This result is an increase of 0.353 cents/kwhr over the existing billing factor of 0.052 cents/kwhr, after reduction for the residual oil sales. The estimated annual revenue increase due to the increased billing factor is $29,025,500. This is an increase in electric rates and charges of approximately 10 percent.

Rate Spread Proposals

A witness on behalf of the city of San Diego requested substantial changes in the rate structure in both gas and electric rates. However, the suggestion that gas rates be lowered for SDG&E customers in the city of San Diego (and raised for other areas) will not be adopted. We do not intend to restructure gas rates in this case. The actual revenue increase is less than one-half of one percent for gas rates and charges.

In electric rate structures, we do not accept the proposition that we should create additional rates schedules for customer classes. On the contrary, we intend to establish rates which will depart from the existing declining block rate structures. The rapidly increasing energy costs, which have resulted in ever increasing rates and charges to SDG&E customers establishes that the existing declining block rate structures are no longer appropriate. To supply additional energy, SDG&E incurs increasing costs. The declining rate block structure assumption that energy use should be encouraged is no longer valid. It is necessary that we recognize that additional energy sources are available only at much higher costs than those experienced by SDG&E in the past.

These will be the last rate increases permitted to domestic users of small quantities of gas and electricity unless and until average rates for all customers substantially exceed the rate for lifeline quantities to domestic users. Under the lifeline concept the Commission will adopt specific quantities in future proceedings to fully implement lifeline rates.

Findings

1. By Decision No. 84512 dated June 10, 1975 in Southern California Gas Company's Application No. 53795 filed January 19, 1973 we ordered a new system of delivery priorities by SoCal to its customers, including SDG&E. As a result of Decision No. 84512 San Diego Gas & Electric Company will receive decreased deliveries of natural gas from SoCal.

2. We find that the Commission staff estimates of the average unit cost per system gas for SDG&E, as set forth in Exhibit 12, are reasonable. Based on the estimated period of July 1, 1975 to June 30, 1976 the staff estimated increase for the purchased gas adjustment (PGA) is $382,600 annually, an increase in revenues of approximately four-tenths of one percent. The staff estimate that a uniform increase of .800 cents per M^2Btu for Schedule G-54 (interdepartmental sales) and an increase of .059 cents per therm on all other schedules is required to offset the new unit cost of system gas is reasonable.

3. The electric department of SDG&E will experience increasing fossil fuel cost for the generation of electricity for the period July 1, 1975 to June 30, 1976. The supply of natural gas available for the generation of electricity will be reduced as a result of our Decision No. 84512. SDG&E will experience a decrease in supply of natural gas for the generation of electricity, and will increase its use of residual fuel oil (which is more than double the unit cost of natural gas). We find it is reasonable to adopt a revised fuel cost adjustment billing factor to reflect the increased fuel cost to SDG&E.

4. The staff estimates for the fuel cost adjustment billing factor for SDG&E for the period July 1, 1975 to June 1, 1976 as set forth in detail in Exhibit 13 are reasonable. However, the staff calculation of the required FCA billing factor as set forth in Exhibit 13 should be modified to reflect residual fuel oil prices as of July 1, 1975. We find that Exhibit 10, page 1, alternate fuel clause adjustment billing factor proposal A (attached hereto as Appendix B) accurately sets forth the FCA billing factor based upon the staff estimates, but using the July 1, 1975 known prices for residual oil.

5. The FCA billing factor for SDG&E should be increased by 0.353 cents/kwhr, an estimated increase in annual revenues of $29,025,500.

6. We find that it is reasonable to use a three months burn period to determine average fuel prices in the calculation of the FCA billing factor for SDG&E. SDG&E should utilize the three months burn period in its future FCA filings.

7. SDG&E has presently under submission a request for emergency interim rate relief in Applications Nos. 55627, 55628, and 55629. The contention that there may be a double collection of fuel expenses as a result of this decision and interim rate relief in those applications is a matter for determination in the interim rate relief matters.

Conclusions

1. SDG&E should be authorized to increase gas rates to its customers in the amount of $382,600 annually.

2. SDG&E should be authorized to increase electric rates and charges to its customers in the amount of $29,025,500 annually. This authorization should be conditioned on SDG&E's agreement that rates collected pursuant to the adjusted FCA billing factor of 0.405/kwhr, set forth in Appendix B of this decision, will be separately accounted for in SDG&E's books of account and will be refunded to the extent that they exceed the actual increased fossil fuel expense.

O R D E R

IT IS ORDERED that San Diego Gas & Electric Company is authorized to file revised tariff schedules with this Commission, in conformity with the provisions of General Order No. 96-Series, with rates increased from present levels by 0.353 cents per kilowatt hour for all electric rate schedules, .800 cents per M^2Btu for Schedule G-54 (interdepartmental sales), and .059 cents per therm for all other gas rate schedules. The effective date of the revised schedules shall be on not less than five days' notice to the Commission and the public.

Filing of these revised tariff schedules shall include the refund provision in Conclusion 2 of this decision. Separate accounts of the increased rates shall be maintained as contemplated in Conclusion 2.

The effective date of this order is the date hereof.

Dated at San Francisco, California, this 16th day of SEPTEMBER, 1975.

President

Commissioners

APPENDIX A

LIST OF APPEARANCES

Applicant: Chickering & Gregory, by Sherman Chickering, C. Hayden Ames and David A. Lawson, III, Attorneys at Law; Gordon Pearce, Attorney at Law; and John H. Woy.

Interested Parties: Ronald L. Johnson and William Shaffran, Attorneys at Law, and Manley W. Edwards, Utility Rate Consultant, for City of San Diego; Elroy F. Wiehl, Attorney at Law, for City of Escondido.

Commission Staff: Ira R. Alderson, Jr., Attorney at Law, and John E. Johnson.

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APPENDIX B

Alternate Fuel Clause Adjustment Billing Factor Proposal A

Assumptions

1. Use of Staff-recommended energy sales.
2. Use of Staff-recommended volumes for purchased power and nuclear energy.
3. Use of Staff-recommended plant gas volumes.
4. Use of Staff-recommended heat rate.
5. Use of now-known July 1, 1975 prices for HIRI and Tesoro residual oil purchases.
6. Use of gas prices including effect of Staff-recommended PGA increase.
7. Use of 3-month burn to determine average fuel price.

Results (for forecast period 7-1-75 through 6-30-76)

1.	Estimated Cost of Fossil Fuel*	M$	178,397
2.	Base Cost (85,656,720 X 159.72¢)	M$	136,811
3.	Increased Cost to be Allocated	M$	41,586
4.	Forecast period sales	M^2kwhr	8,726.81
5.	Fuel Cost Increment (line 3 ÷ line 4)		0.4765¢/kwhr
6.	Factor for Franchise Fees and Uncollectibles		1.01350
7.	Fuel Cost Adjustment Billing Factor		0.483¢/kwhr
8.	Residual Oil Sales Adjustment		(0.078)¢/kwhr
9.	Adjusted FCA Billing Factor		0.405 ¢/kwhr
10.	Increase over Billing Factor of 0.052¢/kwhr		0.353 ¢/kwhr
11.	Forecast Period Area System Sales Subject to FCA Billing Factor		8,222,532 Mkwhr
12.	Increase in Annual Revenue due to Adjusted Billing Factor (line 10 X line 11)		$29,025,500

* Based on 85,656,720 M^2Btu