

ORIGINAL

Decision No. 85288

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)

DECISION AFTER RECONSIDERATION

Decision No. 84618 dated July 1, 1975 authorized an increase in the fuel cost adjustment billing factor (FCA) of San Diego Gas & Electric Company (SDG&E). Applicant SDG&E filed a petition for rehearing of Decision No. 84618 on July 10, 1975. The Commission granted rehearing of Decision No. 84618 for the purpose of reconsideration by Decision No. 84879 dated September 3, 1975.

Our reconsideration is based upon the evidence of record without further hearing. This decision deals solely with SDG&E's contentions that when the Commission reduced SDG&E's requested rate increase by \$6.7 million (the profit realized from 1974 sales of surplus fuel) it confiscated undedicated nonutility property and engaged in retroactive ratemaking.

The claim that the fuel was not dedicated property of the utility is without merit. The fuel was obtained by SDG&E for use in its public utility operations; it was not obtained for speculative purposes. It was sold by SDG&E for a profit. That profit was just

as much operating income to SDG&E as it would have been if SDG&E had used the fuel to generate and sell kilowatt hours. Moreover, even if we assume the fuel was never dedicated, the profit would be a related nonutility profit which should be taken into account in establishing utility rates (PT&T v. PUC (1965) 62 Cal. 2d 634, 659).

The retroactive ratemaking claim is equally without merit, and overlooks the nature of the fuel clause adjustment. The FCA is based upon fuel costs (including purchased fuel in inventory) and is intended to reduce both risks and windfalls by adjusting rates to offset changes in fuel expense. If the FCA does not produce reasonable results we can suspend its application entirely. In determining whether or not to adjust rates under the FCA the Commission may look at all aspects of fuel costs, including rebates on fuel purchased. The record establishes that the staff failed to reduce FCA rate increases in 1974 because the Commission staff members reviewing SDG&E advice letter filings in 1974 were unaware of the profits. Under such circumstances, we conclude that the continued future application of the FCA without adjustment would be unreasonable.

The reliance of SDG&E on Section 728 of the California Public Utilities Code is misplaced, for the FCA procedure is a departure from our usual rate case procedures. SDG&E assumes that the continued application of the FCA will result in just and reasonable rates. We find the application of the FCA without adjustment would result in unreasonable rates in the future. The record establishes that SDG&E's experienced revenues from the FCA have substantially exceeded fuel cost expenses, which the fuel clause was designed only to offset. We conclude that SDG&E's rates should reflect an adjusted FCA at this time in order to have reasonable prospective rates.

Based on our review of the record in this application, as well as the more recent information on SDG&E's current economic condition contained in the record of Application No. 55627 and discussed in Decision No. 85018, additional findings will be added to Decision No. 84618.

Findings

11. The fuel oil sold by SDG&E in 1974 was acquired by SDG&E for use in its utility operations. It was dedicated property.
12. The fuel clause adjustment revenue obtained by SDG&E in 1974 substantially exceeded the increased fuel expenses actually incurred before consideration of the profit from sale of fuel oil.
13. The fuel clause adjustment was intended to charge rate-payers the amount required to offset increased fuel expense. SDG&E has collected substantial revenues in excess of increased fuel expense under FCA rate increases.
14. The operation of the fuel cost adjustment tariff provisions will be reviewed in Case No. 9886.
15. Pending our full review of the FCA, future rates of SDG&E should reflect the adjusted FCA as authorized herein. Application of the FCA without such adjustment to future rates of SDG&E would result in unreasonable future rates.
16. In view of SDG&E's financial emergency, we believe it appropriate to extend the amortization period for the residual oil sales adjustment (reduction) to three years. On this basis the net profit of \$6.7 million will reduce the fuel clause adjustment requirements by \$186,000 monthly. This will reduce the present residual oil sales adjustment from (0.078)¢/kwhr to (0.025)¢/kwhr.

The extension of the amortization period is due only to SDG&E's financial emergency and should not be considered a precedent for transactions of this type as to appropriate amortization periods or methods for SDG&E or other utilities. Further, the Commission will examine this adjustment and its relationship with revenue expense differentials in the fuel clause adjustment investigation and any subsequent fuel filings of SDG&E.

Conclusion

Decision No. 84618, as amended by our additional findings should be affirmed.

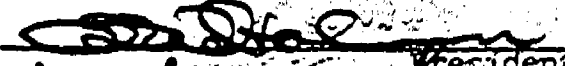
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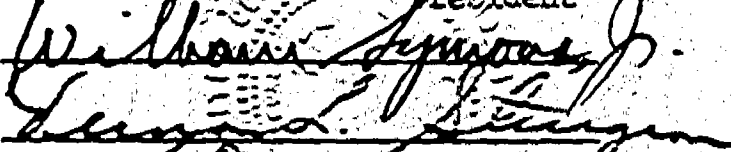
IT IS ORDERED that:

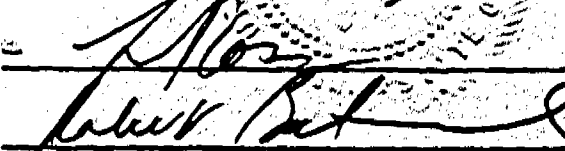
1. Decision No. 84618 is amended by additional findings Nos. 11, 12, 13, 15, and 16 set forth above.
2. Decision No. 84618, as amended, is affirmed.

The effective date of this decision is the date hereof.

Dated at San Francisco, California, this 30th day of DECEMBER, 1975.



President


Commissioner


Commissioners

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.