

Decision No. 85968

BEFORE THE PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

Amendment to Application of PACIFIC
GAS AND ELECTRIC COMPANY revising
request for authority to increase
electric rates due to fuel cost
adjustment to request (a) authority
to place Energy Cost Adjustment
Clause tariffs into effect
immediately, and (b) authority to
place an Energy Cost Adjustment
increase into effect June 1, 1976.

(Electric)

ORIGINAL

Application No. 56160
(Filed December 29, 1975;
amended April 29, 1976)

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Company, applicant.
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for Toward Utility Rate Normalization, protestant.
Frank J. Dorsey, Attorney at Law, for Consumer Interests
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Brobeck, Phleger & Harrison, by Gordon F. Davis
and William H. Booth, Attorneys at Law, for California
Manufacturers Association; Norman L. Codd and
Donald G. Salow, for Southern California Edison
Company; Thomas M. O'Connor, City Attorney and
Robert R. Laughead, P.E., for the City and County
of San Francisco; and Al Zavala, Attorney at Law,
for Department of Consumer Affairs; interested parties.
Peter Arth, Jr., Attorney at Law, and John E. Johnson,
for the Commission staff.

O P I N I O N

On December 29, 1975, the Pacific Gas and Electric Company (PG&E) filed the application herein, seeking an increase under its then effective fuel adjustment clause (FAC). PG&E alleged that under that clause the increase using average year estimates should be \$142,463,000 on an annual basis, but that it was seeking an increase which would produce added revenues of \$70,122,000 on an

annual basis. The requested increase was computed by PG&E using the FAC method proposed by it in Case No. 9886. That method used historical data and a balancing account to amortize any excess or deficiency in fuel clause revenue.

Hearings in the application were held in San Francisco before Examiner Gillanders on February 13 and 17, 1976 and recessed until March 2, 1976. However, the matter was taken off calendar to await the decision in Case No. 9886 which would affect the relief requested.

On April 27, 1976, this Commission issued Decision No. 85731 in Case No. 9886, ordering each respondent utility, one of which was PG&E, to file an energy cost adjustment clause (ECAC) conforming to the elements set forth in said decision. PG&E then filed an advice letter (No. 536-E) requesting authorization to place an ECAC into effect. On April 29, 1976, PG&E filed an amendment to the application herein requesting (a) authority to place an ECAC into effect as the first order of business herein if its proposed ECAC had not been earlier authorized by the Commission in response to said advice letter; and (b) authority to place energy cost adjustment (ECA) rates applicable to its electric department into effect June 1, 1976. The proposed ECA rates would increase PG&E's revenues by \$97,357,000 on an annual basis. In its amended application, PG&E also showed that the Fuel Collection Balance Adjustment (FCBA) computed pursuant to Decision No. 85731 would amount to an annual reduction of \$22,306,000.

On May 4, 1976, by Resolution No. E-1559 the Commission authorized the ECAC tariff PG&E filed in Advice Letter No. 536-E, and PG&E's ECAC tariff became effective on that day.

Hearings on its amended application were held on May 17, 19, and 20, 1976. As the Commission had theretofore authorized the ECAC tariff filed by PG&E, that portion of the amended application had already been decided and the hearings were primarily concerned with PG&E's request for authority to place an ECA into effect June 1, 1976.

Under PG&E's ECAC filed in compliance with the Commission's Decision No. 85731 and approved by the Commission, the ECA rate is determined on the basis of historical data.

In general terms, the volumes of fuel and energy actually purchased, consumed, and sold during the twelve-month calendar record period are used in the computation. The twelve-month period is that ending at the end of the third month prior to the date the adjustment is proposed to become effective. As that date in this application is June 1, 1976, the record period is that twelve-month period ending March 31, 1976. The volumes of gas and each type of oil and coal fuel, if any, used for electric energy and the volume of geothermal and nuclear production in the record period is multiplied by the current price of each and added to the total recorded cost of purchased power in the record period to compute the current total amount to be used in establishing the offset rate.

In addition, PG&E must maintain an energy cost adjustment account in which it records its actual fuel expense for the generation of electricity and actual purchased energy expenses compared with the revenue billed under the offset rate. This account is used as the basis for computing a Balancing Rate, the purpose of which is to bring ECAC revenues and energy and purchased power costs into balance.

PG&E introduced an exhibit showing the determination of the ECA rate it proposed and a Fuel Collection Balance Adjustment rate as described in Decision No. 85731 for the purpose of amortizing over a 36-month period any revenue collected since the beginning of the Fuel Cost Adjustment Clause through March 31, 1976 in excess of actual fuel costs during that period.

The exhibit showed the derivation of the specific rate proposed of 0.821¢ per kilowatt-hour (kwh) for all schedules and contracts to which the ECAC applies, excluding lifeline sales. This

would be an increase of 0.226¢ per kwh. The exhibit also set forth specific adjustments for street lighting. The total annual revenue from the proposed ECA rate as shown in the exhibit is \$97,357,000.

The exhibit showed the derivation of a Fuel Collection Balance Adjustment rate of 0.043¢ per kwh for all rate schedules and contracts to which the ECAC applies. This would result in an estimated decrease in gross revenues of \$22,306,000 on an annual basis.

John A. Bilci of the Finance and Accounts Division and Mahendra Jhala of the Utilities Division appeared as witnesses for the staff of the Commission. Mr. Bilci testified concerning the results of the examination of the staff of the Finance and Accounts Division of the accounting and financial records of PG&E relative to its amended application herein. He concluded that the current cost and quantities of fuel and purchased energy used by PG&E in its determination of the adjustment rate are accurate, "except that the calculation of the current cost of geothermal steam does not comply with Commission Decision No. 85731, with respect to the cost to be recovered by the energy cost adjustment clause". He expressed the opinion that the cost of tankers under hire or contract during the time they were not transporting fuel should not be used in computing the cost of geothermal steam for purposes of the ECAC. He also testified that the Fuel Collection Balance should be adjusted from \$63,849,000 to \$63,960,000 due to error in reporting revenues for September 1975, and correction of a mathematical error.

On cross-examination Mr. Bilci testified that the prices paid by PG&E for the geothermal steam might be different from the cost he computed for this proceeding.

Mr. Jhala testified that the Fuel Collection Balance, the amount to be amortized over a three-year period is \$63,960,000 (the same amount as computed by Mr. Bilci) and that the Fuel Collection

Balance Adjustment rate computed from that balance is 0.043¢ per kwh which would reduce revenue by \$22,306,000 on an annual basis.

Mr. Jhala also testified that in his opinion the cost of geothermal steam should be reduced by the amount of the idle tanker charges that PG&E had used in its computation and that the amount of idle tanker charges included in inventory price for fuel oil as of March 31, 1976 should be deducted from inventory cost. Therefore, Mr. Jhala would reduce PG&E's geothermal energy cost by \$2,338,000 and its fuel oil inventory cost by \$2,125,000 which in turn would reduce PG&E's fossil fuel cost by \$1,977,000.

On the basis of the foregoing Mr. Jhala testified that the ECAC factor in PG&E's rates should be 0.595¢ per kwh for lifeline rates (same as it is now), and increased to 0.811¢ per kwh for nonlifeline sales. This would produce a revenue increase of \$92,620,000 on an annual basis.

The cost to PG&E of fuel is used in the computation of the price PG&E pays steam producers under its steam purchase contracts. On cross-examination Mr. Jhala testified that he did not address himself to the question of whether or not PG&E was required under its contracts with its steam suppliers to pay prices based on the inclusion of the cost of idle tankers as a fuel cost. It was his position that regardless of the price that PG&E pays the steam suppliers, that for the purpose of determining the amount it should recover under the ECAC, idle tanker expenses should be deducted from fuel costs used in determining geothermal expenses.

Neither Mr. Bilci nor Mr. Jhala testified that PG&E did not, in fact, pay the geothermal steam producers a price based on the cost of fuel including the cost of idle tankers.

In Decision No. 85731 we said:

"Thus, we shall exclude fixed charges, costs not directly attributable to energy sources, and costs primarily accounted for in general rate proceedings. This excludes all costs relating to company, affiliate, or subsidiary-owned transportation (including pipelines) and storage facilities, unloading charges for transportation facilities, tankers under hire or contract which are not actually used...

"It includes... Geothermal--unit price (by contract, where applicable) of steam plus effluent disposal cost."

By the above language we intended to exclude future idle tanker charges incurred by PG&E from the computation of fuel oil cost for the purpose of determining the ECA. Such costs could be considered in a general rate proceeding. However, we did intend to include the price PG&E pays to suppliers for geothermal steam as a cost in computing the ECA.

Even though the price actually paid by PG&E to its steam producers is based upon a computation including the cost of idle tankers, that price is the actual price paid by PG&E and it is the price to be used for determinations under its ECA tariff.

For the purposes of this proceeding, the idle tanker charge of \$2,125,000 included in inventory as of March 31, 1976 should be deducted from inventory costs in the determination of the cost of fuel oil in the ECA calculation. The amount so deducted should be included in fuel expense prior to March 31, 1976 and therefore treated as fuel expense in computing the FCBA. In the future, such charges should be accounted for under Account No. 506, Miscellaneous Steam Power Expense.

The following table shows the modification to PG&E's proposal as a result of our decision on the staff recommendations:

<u>ECA Rate</u>	<u>Staff Recommendation</u> (Dollars in Thousands)	<u>Adopted</u> (Dollars in Thousands)
Net current cost of fuel & purchased energy as filed: (Exh. 13, p. 3, line 8)	\$614,776	\$614,776
Less: Proposed reduction in cost of geothermal steam	2,338	-
Less: Proposed reduction resulting from inventory price adjustment	<u>1,977</u>	<u>1,977</u>
Net after adjustments	\$610,461	\$612,799
Net system sales - Gwh	\$ 51,900	\$ 51,900
Current rate for fuel & purchased energy, per kwh	1.176¢	1.181¢
Less: Base rate, per kwh	<u>0.408</u>	<u>0.408</u>
Net for offset, per kwh	0.768¢	0.773¢
Nonlifeline offset rate, per kwh	0.805¢	0.810¢
Nonlifeline offset rate adjusted for franchises & uncollectibles per kwh	0.811¢	0.816¢
Lifeline offset rate adjusted for franchises & uncollectibles, per kwh	0.595¢	0.595¢
Increased annual revenue	\$ 92,620	\$ 95,200
<u>FCBA Rate</u>		
Fuel Collection Balance as filed	\$ 63,849	\$ 63,849
Plus: Staff corrections	<u>111</u>	<u>111</u>
	\$ 63,960	\$ 63,960
Less: Idle tanker cost charged to expense	<u>-</u>	<u>2,031*</u>
Adjusted fuel collection balance	\$ 63,960	\$ 61,929
One-third of above	\$ 21,320	\$ 20,643
Applicable sales - Gwh	\$ 49,363	\$ 49,363
FCBA rate	.043¢	.042¢
Decreased annual revenue	\$ 22,306	\$ 21,786

* Portion of \$2,125,000 allocated to jurisdictional sales.

TURN moved that the staff be ordered to review the purchase practices and contracts of PG&E and prepare an exhibit reflecting that review, such evaluation to focus on:

- (1) The reasonableness of the prices paid and other terms of the contracts in issue;
- (2) The number and reasonableness of spot purchases as contrasted with long-term contractual arrangements; and
- (3) The reasonableness of the choices made by PG&E in determining its fuel mix.

The motion was taken under submission by the examiner and it is here denied. This does not mean that we will not inquire into whether fuel costs paid by utilities are reasonable and proper. As we said in Decision No. 85731, "We contemplate that only reasonably incurred reasonable costs for fuel are to be recovered". We therefore established a method of making the necessary determination by an annual review. PG&E's tariff which became effective May 4, 1976 provides that a report be filed April 15 of each year with the Commission on the reasonableness of the prices paid for fuel and energy purchased. When this report is filed next April 15, it will report on the prices paid during a period in which the ECAC has been in effect. In the meantime PG&E will be expected to file a report, covering the year 1975, on the prices it paid for the fuel and energy purchases used in the computation of the ECA under its ECAC filed pursuant to Decision No. 85731. Such a report could not have been filed on April 15, 1976, as our decision had not then been issued, and PG&E's ECAC was not then in effect. It is not necessary or proper to delay the adjustment requested here until that report is filed, nor is it necessary to delay the report until April 15, 1977. Therefore, we will expect PG&E to file a 1976 report in the near future, no later than August 1, 1976.

PG&E's manager of materials who has the responsibility for the purchase of all fuel oil testified at the hearings concerning PG&E's purchase of fuel oil. The company now has contracts with ARCO, Union Oil, Lion Oil, a successor to Phillips, and Standard Oil of California. For the month of March, PG&E paid a price per barrel for fuel oil with sulfur content not in excess of one-half percent as follows:

ARCO	\$14.72
Union	\$14.37
Lion	\$11.52 - \$11.84
Standard	\$13.84

Standard is now the largest supplier,

The ARCO and Union prices are paid under the contracts which were in effect in 1974 when their price provisions were fully reviewed by this Commission in Application No. 55222 resulting in Decision No. 83934 issued December 30, 1975. The Standard arrangement was not in effect at that time. However, we note that the price paid Standard is less than that paid ARCO and Union and that we did not find those latter contracts imprudent in Decision No. 83934.

PG&E's manager of power control testified concerning the procedure PG&E follows on an annual, monthly, daily, and hourly basis to assure the availability of the necessary fuel to generate the power to meet the demand for electric energy and that the most economical fuel or purchased power available is utilized.

We find that PG&E has acted reasonably in its purchases of fuel and energy for the purpose of this proceeding.

Under the ECAC procedure we have the opportunity to review the reasonableness of the utility's fuel and energy purchases upon staff review of the annual report on reasonableness of the prices paid for fuel and energy purchases. Inasmuch as we have the opportunity to make adjustments if necessary when the ECA account is

reviewed for the purpose of determining the balancing rate, we do not find it necessary to review the reasonableness of the prices paid for fuel and energy purchases in every ECAC hearing. We will request the staff to make a recommendation to us of the most efficient method of conducting such a review.

Provision for showing the Fuel Collection Balance Adjustment rate, as shown in applicant's ECAC (Exh. 12, part 12), on each applicable tariff rate schedule facilitates showing the dollar effect thereof on each customer bill. We shall require applicant to show the dollar amount of the FCBA on each bill. In order to allow time for the billing program the credit amount should be shown on bills rendered on and after July 1, 1976.

Applicant's other pending fuel clause applications and advice letters are now moot; therefore, the applications will be dismissed and the advice letters rejected.

In order to make the implementation of the ECAC coincide as closely as possible to the intention of the Commission in Decision No. 87531, this order should be effective immediately.

Findings of Fact

1. Applicant's ECAC tariff (Exhibit No. 12), filed pursuant to Decision No. 85731 dated April 27, 1976, became effective May 4, 1976, pursuant to Resolution No. E-1559.

2. Said ECAC tariff complies with Decision No. 85731.

3. Except as found below, applicant's filing in the amendment dated April 29, 1976 in Application No. 56160 complies with the ECAC tariff and with Decision No. 85731.

4. Applicant's Fuel Collection Balance, as of April 1, 1976, is \$61,929,000.

5. Said Fuel Collection Balance, plus interest at 7/12 percent per month on the unamortized balance, should be amortized over thirty-six months in approximately equal amounts each month. Commencing with service on and after June 15, 1976, such amortization should be at a rate of \$0.00042 per kwh of jurisdictional sales to which the ECAC applies, including lifeline usage. The dollar amount thereof should be shown on each customer's bill. ✓

6. For the purpose of calculating a revised ECA rate, applicant's inventory should be reduced by the portion of idle tanker charges recorded in inventory and not expensed prior to March 31, 1976. For this purpose, applicant shall be directed to credit its inventory as of that date by an amount of \$2,125,000 and debit fuel expense.

7. Applicant's fuel and purchased energy expenses, after the above adjustment, are for the purposes of this decision reasonable.

8. Applicant's ECA rate for service on and after June 15, 1976 should be \$0.00816 for nonlifeline sales and \$0.00595 for lifeline sales.

9. The revenue increase is approximately \$95,200,000 less an adjustment of approximately \$21,786,000 for a net increase of \$73,414,000.

10. The changes in rates and charges authorized by this decision are justified and reasonable; the present rates and charges, insofar as they differ from those prescribed by this decision, are, for the future, unjust and unreasonable.

O R D E R

IT IS ORDERED that:

1. Pacific Gas and Electric Company has a Fuel Collection Balance as of April 1, 1976 of \$61,929,000 and is ordered to refile paragraph 12 of its ECAC tariff to set forth such amount.

2. Pacific Gas and Electric Company is ordered to refile paragraph 5 of its ECAC tariff to set forth revision dates of January 1 and July 1.

3. Pacific Gas and Electric Company shall decrease each rate schedule, described in paragraph 12 of its energy cost adjustment tariff, by a Fuel Collection Balance Adjustment of \$0.00042 per kwh.

4. Pacific Gas and Electric Company is authorized to increase its energy cost adjustment rate to \$0.00816 per kwh for all of its Electric Department's applicable nonlifeline sales and \$0.00595 for lifeline sales.

5. Pacific Gas and Electric Company shall make the accounting entries set forth in Finding 6.

The effective date of this order is the date hereof.

Dated at San Francisco, California, this 15th day of JUNE, 1976.

I will file a concurring
in part and dissenting
in part statement
William Synovus, Jr.

[Signature]
President

[Signature]
Commissioner

[Signature]
Commissioners

I concur in the main
issue but dissent in
part. I believe the
reduction in the amount
found to be reasonable relief under the
guise of refund for previous over collection
is retroactive rate-making, therefore
illegal

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

Vernon L. Sturgeon

A. 56160 -

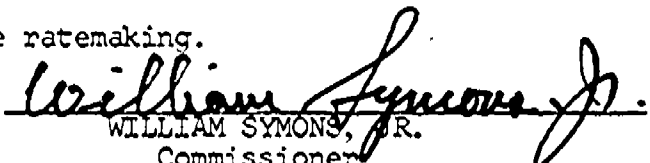
COMMISSIONER WILLIAM SYMONS, JR., Concurring in Part and
Dissenting in Part

The application of a reasonable recorded data formula for fuel cost adjustment supports the revenue increase of \$95,200,000. Therefore, while I dissent from the retroactive rate adjustment of \$21,786,000, I do not dissent from the granting of the remaining increase set forth in the decision -- \$73,414,000. While insufficient, this change in rates and charges, as far as it goes, is fully justified and reasonable.

The April 27, 1976, Decision No. 85731 in Case No. 9886 contained the schematic for the majority's venture into retroactive ratemaking. Pacific Gas and Electric Company is the first company to feel its application -- \$22,000,000 in revenue dollars to be held back over the next 12 months. The company was in no position to argue. Fuel costs have increased substantially and the company's three fuel cost adjustments applications, filed since January 1, 1975, have not been acted upon, despite the Commission's statement in the Order instituting Case No. 9886 (initiating an investigation into possible modifications of the fuel cost adjustment clause) that we would continue to operate under the existing F.C.A. until a change in formula was decided upon. But the subsequent failure to act on that statement had severe effects. This company experienced \$53,000,000 in costs of fuel that went unreimbursed by compensating revenue during the first quarter of 1976 alone.

As discussed in the dissent to Decision No. 85731, the conversion from "average year" to "recorded data" as a basis for forecasting fuel requirements in an upcoming year is acceptable. What is unwise and illegal is the insertion of a device in the newly created "Energy Cost Adjustment Clause" which operates by way of retroactive ratemaking.

San Francisco, California
June 15, 1976


WILLIAM SYMONS, JR.
Commissioner