Decision 84 12 065 DEC 28 1984

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 revise its Energy Cost Adjustment Clause Rate, to revise its Annual Energy Rate, and to revise its Electric Base Rates in Accordance with the Electrical Revenue Adjustment Mechanism established by Decision 93892.	Application 84-07-027 (Filed July 11, 1984)

Randall W. Childress, Attorney at Law, for San Diego Gas & Electric Company, applicant.
Beers & Dickson, by Roger Beers, for Utility Consumers' Action Network, and John Witt, City Attorney, by Leslie J. Girard and William Shaffran, Deputy City Attorneys, for City of San Diego, interested parties.
Richard D. Rosenberg, Attorney at Law, and William Y. Lee, for the Commission staff.

INTERIM OPINION

I. Summary of Decision

In this interim opinion, we adjust San Diego Gas & Electric Company's (SDG&E) Energy Cost Adjustment Clause (ECAC) rate, Annual Energy Rate (AER), and Electric Revenue Adjustment Mechanism (ERAM) rate. The total adjustments including the refund of the $45,060,000 Tesoro disallowance ordered in Decision (D.) 84-12-026 over a 12-month period would produce a net decrease in revenues of $24.7 million as follows:

ECAC rate decrease	.049 cents per kilowatt-hour (¢/kWh)	$ (5.2 million)
AER rate increase	0.015¢/kWh	1.6 million
ERAM rate decrease	0.198¢/kWh	(21.0 million)
Total		$ 24.7 million

(Red Figure)

II. Introduction

By this application SDG&E seeks authority from this Commission to revise its electric rates and charges in conformance with D. 92496 in Order Instituting Investigation (OII) 56, D.83-02-076 in OII 82-09-02, D.83-08-048 in OII 82-04-02, and D.83-12-065 in A.82-12-57. SDG&E requests a uniform 0.626¢/kWh increase in SDG&E's ECAC adjustment rates to offset 92% of the estimated cost of all energy and fuel-related expenses for the twelve months beginning November 1, 1984, and to amortize the estimated balancing account undercollection of $2.7 million as of November 1, 1984 over the following twelve months. SDG&E also seeks a $5.1 million increase in the AER to offset 8% of the estimated cost of energy and fuel-related expenses for the twelve months commencing November 1, 1984. SDG&E further seeks a .152¢/kWh decrease in base rates to amortize the estimated $20.9 million ERAM overcollection over twelve months. The total change in rates would amount to a 4.6% or $56.1 million increase in electric revenues. The application also covers the reasonableness review for the record period May 1, 1983 through April 30, 1984 and certain other issues stipulated in A.83-07-16.

SDG&E further requests that the Commission authorize the use of SDG&E's authorized rate of return as the carrying cost for the AER portion of the adopted fuel oil inventory and the use of SDG&E's earned rate of return not to exceed the authorized rate of return to determine the carrying cost of the adopted fuel inventory recoverable under ECAC and for fuel inventory above the adopted inventory level the use of the ECAC balancing account interest rate.

A prehearing conference was held on August 31, 1984 and ten days of evidentiary hearings on the forecast issues began on September 17, 1984. Oral argument on the forecast issues was held on October 3, 1984 with optional briefs filed on October 9, 1984. SDG&E presented nine witnesses, Utility Consumer Action Network (UCAN) presented one witness, and the Commission staff (staff) presented eight witnesses. The City of San Diego (City) participated in the proceeding through cross-examination of witnesses, and argument. SDG&E, UCAN, and staff also participated in the oral argument and filed briefs.

III. Issues

A. General

The major issues in the forecast phase are the reasonableness of the forecasted purchased power level, the nuclear power capacity factor, the level of oil burn and the ratemaking treatment of fuel oil sale losses and/or underlift payments, the use of rate of return as the carrying cost of fuel oil inventory in lieu of the Bankers' Acceptance rate, and the appropriate balancing account rate. In addition the adoption of the Incremental Energy Rate including SONGS 2 & 3, the staff's introduction of a Production Cost Analysis Model (PCAM) to forecast the resource mix for the forecast period, and the fuel savings from the Southwest Power Link (SWPL) were other items that were introduced into this proceeding.

SDG&E and staff were in basic agreement on sales forecast, heat rate, unit cost of low sulfur fuel oil (LSFO) and diesel oil, geothermal energy costs, nuclear fuel costs, estimates of qualifying facilities (QF), diesel oil burn, and LSFO inventory of 960,000 barrels.

UCAN's witness David Marcus testified that there could be a $40.7 million cost savings in the forecast period if a higher level

of southwest economy energy purchases were used, and if corrections were made to overstated forecast period costs by SDG&E on Pacific Northwest energy costs, GN-5 rates, Heber geothermal costs, and the cost of 404 gigawatt (gWh) of Southwest nonfirm energy.

B. Resource Mix

The following is a comparison of the estimated resource mix for the forecast period of SDG&E and the staff:

Resource	GWHR SDG&E	GWHR Staff	% of Total Mix SDG&E	% of Total Mix Staff
Purchased Energy	4,865.9	5,087.7	40.3	42.1
Geothermal	36.1	36.1	.3	.3
Nuclear generation	2,435.2	2,711.0	20.2	22.5
Natural Gas	4,369.0	4,145.6	36.2	34.3
Diesel Oil	1.6	1.6	-	-
LSFO	367.2	93.0	3.0	.8
Total	12,075.0	12,075.0	100.0	100.0

C. Nuclear Generation

The staff developed its capacity factor estimated for SONGS 2 & 3 by developing a production factor for nine post-1979 pressurized water reactor plants for the period beginning with their commercial operating date through April 1984. Using the average production factor of 77% and the knowledge that SONGS 2 will be down for 3 months in the forecast period for the refueling and maintenance and SONGS 3 will be down for two months for refueling, staff developed a capacity factor of 58% for SONGS 2 and 64% for SONGS 3. SDG&E relied upon an Edison study which showed a 60% capacity factor for both SONGS 2 & 3.

SDG&E argued that the staff methodology is simplistic and flawed and that the Commission should adopt the plant operator's

estimate of capacity factor in this proceeding. While we may not agree entirely with the staff methodology, we believe that the staff has made a reasonable attempt to forecast the estimated nuclear generation for the forecast period. We will therefore adopt the staff's nuclear generation estimate.

D. Purchased Energy

SDG&E and staff differ in their estimate of purchased power by some 222gWh. The bulk of this difference is due to the staff's estimate of higher availability of Southwest (SW) purchases during the months of May through October 1985 and also greater Pacific Northwest (PNW) power in July 1985. The staff accepts the company's projection of purchased power prices except for SW economy energy prices. The staff disagrees with SDG&E's $2 megawatt (MWh) inflation cost factor.

UCAN's witness Marcus testified that SDG&E should be able to take a substantially greater volume of SW power especially with the availability of the SWPL capacity in the forecast period. If SDG&E took SW power proportional to the combined Southern California Edison (Edison) and Los Angeles Department of Water and Power (LADWP) use of uncommitted transfer capability, it should be able to take 1,188gWh compared to the 404gWh purchases shown in the application. Marcus further stated that he would expect SDG&E to be able to fill a greater percentage of its available transfer capability with nonfirm economy energy than either Edison or LADWP because SDG&E has the highest avoided cost and the smallest amount of transmission capability. By recommending the use of an average of SCE and LADWP use of uncommitted transmission capability, witness Marcus stated that he was being conservative. Marcus further admitted that while other factors might account for SDG&E's being less able to fill its available transmission capability such as

minimum load constraints no adjustment to his estimate was necessary because his averaging methodology already results in a conservative estimate.

In addition Marcus criticized SDG&E's showing for failing to make full use of Bonneville Power Administration (BPA) surplus, less than 90% use of the PNW intertie, excessive derate of the DC line and the overstatement of the SW economy energy price.

SDG&E criticized Mr. Marcus' estimate because it failed to consider numerous specifics regarding SDG&E's system that would affect the availability and usability of purchased power. These critical factors include minimum load, load shapes, percentage of baseload resources to total resources, customer mix, reliability of service, specific size and type of generating units, and gas rate differentials. SDG&E argues that its forecast is the only credible forecast and should be adopted. The Commission should not be swept up by poorly analyzed position calling for unreasonable and unattainable levels of purchased power which may not be available to enable SDG&E to meet its peak loads. SDG&E argues that it has a responsibility to meet its requirements to its customers and cannot engage in the kind of speculative risks that UCAN suggests in this proceeding.

SDG&E further argues that its estimates of SW energy prices are reasonable when you consider that the 1983 and early 1984 prices were due to plentiful supplies of hydro during this period and the fact there is increased competition for capacity in Arizona and Mexico which will drive up the need for capacity and, therefore, the prices up in the forecast period. SDG&E further states that although UCAN would have SDG&E rely solely on Edison information, it ignores the fact that for this period Edison is forecasting the price of SW energy to be $31, which is in most months higher than SDG&E's forecast of purchased power.

Upon careful review of the position of the various parties, we are of the opinion that the staff's estimate of the volume of purchased power for the forecast period is the most reasonable and will be adopted for the purposes of this proceeding. While witness Marcus has testified that SDG&E should be able to substantially increase its SW energy purchases we are not convinced that we can properly conclude that SDG&E should be able to match the performance of two other utilities without considering other factors which may preclude SDG&E from taking increased levels of purchased power. We concur with staff and UCAN that SDG&E has failed to justify the $2 increase in the SW energy costs. We will therefore adopt the staff recommended level of purchased power together with the staff's estimated cost of SW power. We note that the staff's higher estimate of NW and SW power purchases consider, in part, the higher levels also recommended by UCAN.

E. Geothermal Power

There is no basic difference in the geothermal estimate between company and staff. UCAN picked up a minor discrepancy due to two computational errors which in part are offsetting. We will adopt the company's estimate of geothermal power because the discrepancy is insignificant.

F. Natural Gas

SDG&E, UCAN, and staff have stipulated to the GN-5 price to be used for the purpose of the forecast period. SDG&E recommends that rather than using the amount shown in its application of $259,899,000 based on the assumption that there would be an increase in the GN-5 rate, it now expects the GN-5 rate to remain stable at the current level. This would result in a revised natural gas cost estimate of $247,399,000 for the forecast period. SDG&E recommends that this revised figure be used for forecasting purposes and should the Commission adopt a different GN-5 rate in the current CAM

proceeding, it be allowed to make an adjustment by advice letter filing to be effective on the date filed to protect both the ratepayer and shareholder interests. Staff and UCAN concur in this treatment.

The staff's lower estimate of gas used for generation is due to the higher level of nuclear generation and purchased power. Since we are adopting the staff recommended level of nuclear and purchased power we will also adopt the staff gas volumes.

G. PROMOD AND PCAM

Both SDG&E and the staff used production simulation models to develop their respective fuel resource mix estimates for the forecast period. SDG&E's production simulation model (PROMOD) has been used in past proceedings, however this is the first proceeding in which the staff's PCAM has been used. Both models are sophisticated models although we are uncertain as to whether one is superior to the other. Although PCAM does not provide for the same details as PROMOD, we are of the opinion that it is reasonable for the purposes of making estimates of resource mix for these proceedings and will adopt the PCAM results.

H. Fuel Oil

SDG&E and staff are in basic agreement as to the level of diesel oil use in the forecast period. The staff however forecasts a substantially smaller level of LSFO burn in the forecast period again due to its higher purchased power and nuclear generation estimates as well as the lower natural gas prices. We will adopt the staff estimate of LSFO burn.

I. Fuel Oil Inventory - Losses

Staff has no objection to SDG&E's average LSFO inventory for the period of 960,000 barrels and an average diesel oil inventory of 80,000 barrels. Staff also has no objection to SDG&E's use of a $5.50/barrel price as the average loss on sale or underlift fee for

the forecast period. Staff recommends allowing SDG&E to underlift the entire Hawaiian Independent Refinery, Inc. (HIRI) contract volume of 2,920,000 barrels since it believes that the proposed purchase of 430,000 barrels is unnecessary.

The staff also has no objection to SDG&E's proposal to sell 35,000 barrels of surplus diesel oil and the resulting $156,800 loss on the sale. The loss figure differs from SDG&E's estimate because of the difference in the moving average price of diesel oil used.

The staff counsel further recommends that the Commission adopt the same treatment for sharing of fuel oil losses adopted by this Commission for Pacific Gas and Electric Company (PG&E) in D.84-08-118, in which the Commission required the shareholders to assume 9% (PG&E's AER percentage) of the fuel oil sale losses. He argues that SDG&E's situation is comparable to PG&E and recommends that 8% (SDG&E's AER percentage) of the projected fuel oil sale losses be borne by shareholders by removing such amount from the estimate of SDG&E's AER revenues. SDG&E argues that there were no questions asked of its witnesses on the PG&E methodology, nor did any staff witness propose such a methodology be adopted. Staff counsel argues that no further evidence is necessary since the principle that a portion of oil sale losses should be assigned to shareholders was established in D.84-08-118.

We will adopt the principle established in D.84-08-118 that a portion of the fuel oil sale losses should be borne on a shared basis by the investors even though the sales of the oil represented the best economic choice in the circumstances from the total company perspective. In doing so, we continue the implementation of a

sharing policy which recognizes that the excess fuel oil situation facing us today stems essentially from this society's 1970's resource planning decisions greatly emphasizing security of LSFO supplies. The consensus view acknowledges that drastically changing circumstances have cast serious doubt on the strength of our collective wisdom. But that is not the key point. Today we struggle with the tremendous financial consequences of these past decisions and as regulators we must strive for equitable cost allocation in an imperfect world.

While we find that a utility's particular course of conduct in disposing of the excess fuel oil, rather than storing it, may be the best economic choice <u>from the total company perspective</u>, such a choice requires analysis of the manner in which cost mitigation strategies impact the interests of both shareholders and ratepayers. Since shareholders <u>do</u> bear some of the carrying costs associated with storing excess oil inventory, and SDG&E's analysis understates the attractiveness of the storage option from the ratepayer perspective, we find that the balance of the equities requires a 92-8% sharing between ratepayers and shareholders. Thus of the $16,060,000 estimated underlift payments in the forecast period 8% or $1,285,000 will be disallowed and the remaining $14,775,000 will be provided traditional ECAC/AER treatment. There will be similar treatment for the diesel oil sale losses. The application of the sharing principle to underlift payments <u>and</u> oil sales losses is appropriate, as both transactions stem from the same oversupply problem we have previously discussed. Indeed SDG&E's use of the $5.50/bbl price as the forecasted average sales loss <u>or</u> underlift fee implicitly recognizes that fact.

J. Carrying Cost of Fuel Oil in Inventory

SDG&E requests that it be allowed to use its earned rate of return as the carrying cost associated with fuel oil inventory. D.83-08-048 which established the carrying cost of adopted fuel oil in inventory authorized PG&E, Edison, and Sierra Pacific Power the use of the earned rate of return as the carrying cost of adopted fuel oil inventory for those companies. SDG&E was required to use the Bankers' Acceptance rate as its carrying cost of fuel oil in inventory because SDG&E was unique in that it resorted to such financing for its fuel oil inventory. SDG&E's witness Malquist testified that SDG&E has not resorted to Bankers' Acceptance financing of its fuel oil inventory since early 1984 and therefore it should be authorized to use the same carrying costs used by other utilities.

Staff, UCAN, and City argue that for the purposes of setting rates SDG&E should be allowed only the Bankers' Acceptance rate since it was much cheaper to the ratepayers. Staff further argues that since Bankers' Acceptance rate is lower than the authorized rate of return, other utilities should also be compelled to finance their fuel oil inventory through Bankers' Acceptances.

We are persuaded by the arguments presented that we should adhere to the ratemaking treatment adopted in D.83-08-048 for SDG&E's carrying costs. The only argument SDG&E makes for the modification of this prior treatment is that it is not now actually using bankers acceptances to finance its oil inventory. SDG&E also claims concern about excessive short term borrowing if we adhere to our current ratemaking treatment, although this record indicates that SDG&E is not currently utilizing short-term financing and that it estimates its credit rating would not be affected until its short-term borrowing reached a level of $125 million. The record indicates that financing requirements for SDG&E's fuel oil in inventory approximate $40 million, well below the $125 million amount. In addition, SDG&E indicated that any bankers acceptances it uses to meet its actual borrowing needs will be collateralized by its fuel oil inventories. Thus the use of bankers acceptances for ratemaking purposes seems entirely appropriate and SDG&E has failed to make a plausible showing that it will be adversely affected by our present policy.

Indeed the weight of the evidence indicates that a change in policy, even if justified by SDG&E's arguments, would cost ratepayers an additional $4 million in carrying costs. Compared to the 12% cost of bankers acceptances, a changeover to authorized rate of return (12.82%) would cost ratepayers approximately 21% due to the net-to-gross multiplier effect. There is simply no justification for passing this additional cost on to ratepayers.

In its last general rate case, SDG&E stipulated with staff to the exclusion of bankers acceptances from its capital structure "in favor of consideration of their ratemaking treatment of fuel oil inventory costs in OII 82-04-02, the ECAC incentives case." (D.83-12-065, Mimeo p. 91). This further underscores the inappropriateness of making the change advocated by SDG&E in this offset proceeding.

Finally, we encourage our public staff to pursue this issue further as it bears on the carrying costs of the other OII 82-04-02 respondents, in order to ensure that other ratepayers are not bearing excessive carrying costs for fuel oil in inventory.

K. Balancing Account Rate

D.91296 in OII 56 authorized SDG&E to use the commercial paper rate plus a 50 basis point adder as the balancing account rate because of SDG&E's lower commercial paper rating. Staff now argues that the need for the 50 basis point adder is no longer warranted because SDG&E's commercial paper rating has been upgraded from its former A2/P2 rating to an A1/P2 rating. SDG&E on the other hand argues that there is justification for retaining the 50 basis point adder since there were times when the 50 basis point adder was not sufficient in the past and futhermore even with an A1/P2 rating SDG&E's rating was still lower than the A1/P1 rating enjoyed by the other utilities. However should the Commission feel compelled to make an adjustment to the adder, SDG&E believes that an adjustment to a 26 to 32 basis point adder can be justified.

Staff on the other hand believes that because of SDG&E's vastly improved financial condition and reduced financing expenses SDG&E should be required to apply the commercial paper rate with no adder for ECAC balancing account purposes effective November 1, 1984.

We concur that the 50 basis point adder for SDG&E is no longer warranted, however based on the evidence in the record we believe that a 25 basis point adder is reasonable. When SDG&E's commercial paper rating is upgraded to the level of A1/P1 the adder no longer will be warranted.

L. SWPL Fuel Savings

In response to Ordering Paragraph 4 of D.84-08-125 in A.83-12-01, SDG&E witnesses testified that the estimated fuel savings from the SWPL would be $34,710,000 for the forecast period based on a PROMOD run using the same assumptions used to make the ECAC run with the exception of the existence of the SWPL. Staff, UCAN, and City challenge the reasonableness of these savings especially in view of

the lower estimate of purchased water in the forecast period compared to the record period purchases. The record in this proceeding is inadequate to determine the reasonableness of the purported savings from the SWPL. We will expect applicant and staff to further study this issue in its general rate case proceeding to determine whether there is reasonable use being made of the SWPL.

M. Miscellaneous Items

In SDG&E's 1984 general rate case, incremental energy rates were adopted with the understanding that following the commercial operation of SONGS 2 & 3 the incremental energy rates including SONGS 2 & 3 would be considered in the next ECAC proceeding. SDG&E has incorporated the incremental energy rates including SONGS 2 & 3 in this application. It has used the staff's proposed numbers offered in the general rate case and has given notice to all parties from the general rate case that the change will be made in this proceeding. SDG&E states that the change is non controversial and that the Commission should authorize the new incremental energy rates.

The staff also recommends the revision of SDG&E's Preliminary Statement to reflect a cumulative basis of calculation rather than a monthly basis of calculation for the earnings limitation cap. SDG&E did not object to this recommendation. We require SDG&E to modify Preliminary Statement Section 9(m)(2) in the manner recommended by the staff in Exhibits 16 and 34.

We will also adopt the staff estimated balances of the ECAC and ERAM balancing accounts which include more actual recorded data and also correct earnings limitation cap adjustments.

Consistent with our recent decision in SDG&E's general rate case (D.83-12-065), the System Average Percentage Change Method will be used to allocate the revenue changes flowing from this decision among customer classes. Tables 1 and 2 presents the derivation of the ECAC and AER adopted in this decision. The $45,060,000 refund ordered by D.84-12-026 for the Tesoro disallowance is included in calculating the ECAC balancing account rate change in Table 1. The rates adopted in this decision passes through the $45,060,000 refund over a 12-month period.

TABLE 1

SAN DIEGO GAS & ELECTRIC COMPANY
DEVELOPMENT OF ECAC RATE
NOVEMBER 1,1984 TO OCTOBER 31,1985

	INPUT	UNIT PRICES			FUEL BURN	COST
	M2KWH	$/BBL	C/M2BTU	C/KWH	M3BTU	M$
1 PURCHASED ENERGY	5087.7			4.68933		238579.0
2 GEOTHERMAL	36.1			14.36288		5185.000
3 NUCLEAR GENERATION	2710.99			1.144957		31039.67
4 FOSSIL FUEL						
5 NATURAL GAS	4145.61		500.3	5.478285	45394.43	227108.3
6 DIESEL OIL	1.6	40.68	721.15	9.37495	20.8	149.9992
7 RESIDUAL OIL	93	38.4	612.76	7.322482	1111.35	6809.908
8 SUBTOTAL FOS. FUEL	4240.21					234068.2
9 SUBTOTAL FUEL AND PURCHASED ENERGY	12075					508872.0
10 PLUS VARIABLE WHEELING EXPENSES						630
11 UNDERLIFT PAYMENTS						14775
12 CARRYING COSTS OF OIL IN INVENTORY						4919
13 NET LOSSES ON SALES OF FUEL OIL(DIESEL)						144.3
14 SUBTOTAL EXPENSES						529340.3
15 LESS 8% OF LINE 13						-42347.2
16 PLUS NARCO FUEL SERVICE CHARGE						1153
17 TOTAL						488146.0
18 ALLOCATED AMOUNT FOR ECAC RECOVERY (L 17 X ALLOCATION RATIO OF .984724)						480689.1
19 LESS ECAC ENERGY COST OFFSET FROM CURRENT ECAC OFFSET RATES						458045.6
20 ALLOCATED CURRENT COST LESS REVENUE FROM CURRENT ECAC OFFSET RATES						22643.51
21 ECAC OFFSET RATE CHANGE (L20/10635.65MMKWHS)						.213 C/KWH
22 ECAC OFFSET RATE CHANGE ADJUSTED FOR FRANCHISE FEES AND UNCOLLECTIBLES(L21X1.0128)						.216 C/KWH

TABLE 1 (CONTINUED)

ITEM	UNIT	
23 ESTIMATED BALANCE OF ECAC AS OF NOV.1,1984	M$	14312
24 TESORO DISALLOWANCE	M$	-45060
25 ADJUSTED BALANCING ACCOUNT	M$	-30748
26 TWELVE-MONTH ESTIMATED SALES APPLICABLE TO ECAC ADJUSTMENT RATES	M2KWH	10635.65
27 TOTAL ECAC BALANCING RATE(L 25 / L 26)	C/KWH	-.289103
28 PROPOSED TOTAL BALANCING RATE ADJUSTED FOR FRANCHISE AND UNCOLLECTIBLES (LINE 27 X 1.0128)	C/KWH	-.292804
29 PRESENT TOTAL BALANCING RATE	C/KWH	-.028
30 TOTAL BALANCING RATE CHANGE (LINE 28- LINE 29)	C/KWH	-.264804
31 PROPOSED UNIFORM CHANGE IN OFFSET RATE	C/KWH	.216
32 PROPOSED UNIFORM CHANGE IN ECAC ADJUSTMENT RATE (LINE 30 + LINE 31)	C/KWH	-.049

TABLE 2
SAN DIEGO GAS & ELECTRIC COMPANY
DEVELOPMENT OF ANNUAL ENERGY RATE

NOVEMBER 1,1984 TO OCTOBER 31,1985

	INPUT M2KWH	UNIT PRICES $/BBL	C/M2BTU	C/KWH	FUEL BURN M3BTU	COST M$
1 PURCHASED ENERGY	5087.7			4.68933		238579.0
2 GEOTHERMAL	36.1			14.36288		5185.000
3 NUCLEAR GENERATION	2710.99			1.144957		31039.67
4 FOSSIL FUEL						
5 NATURAL GAS	4145.61		500.3	5.478285	45394.43	227108.3
6 DIESEL OIL	1.6	40.68	721.15	9.37495	20.8	149.9992
7 RESIDUAL OIL	93	38.4	612.76	7.322482	1111.35	6809.908
8 SUBTOTAL FOS. FUEL	4240.21					234068.2
9 SUBTOTAL FUEL AND PURCHASED ENERGY	12075					508872.0
10 PLUS VARIABLE WHEELING EXPENSES						630
11 UNDERLIFT PAYMENTS						14775
12 CARRYING COST OF OIL IN INVENTORY						4919
13 NET LOSSES ON SALES OF FUEL OIL(DIESEL)						144.3
14 SUBTOTAL EXPENSES						529340.3
15 LESS 92% OF LINE 13						-486993.
16 TOTAL						42347.22
17 ALLOCATED AMOUNT FOR AER RECOVERY (L 16 X ALLOCATION RATIO OF .984724)						41700.32
18 ANNUAL ENERGY RATE (L17/10635.65MMKWHS)						.392 C/KWH
19 AER ADJUSTED FOR FRANCHISE FEES AND UNCOLLECTIBLES(L18X1.0128)						.397 C/KWH
20 PRESENT ANNUAL ENERGY RATE						.382 C/KWH
21 CHANGE IN AER RATE						.015 C/KWH

Findings of Fact

1. In A.84-07-027, SDG&E requests adjustment of its ECAC rate, AER, and ERAM rate for a net revenue increase of 4.6% or $56.1 million in its electric revenues for the twelve-month period November 1, 1984 to October 31, 1985.

2. SDG&E's foreast resource mix understates nuclear generation and purchased power and overstates natural gas and LSFO burn.

3. The staff's estimate of nuclear generation, purchased power, natural gas, and LSFO burn is reasonable and will be adopted for the forecast period.

4. SDG&E's estimated cost of SW energy involving the rounding up of costs and the use of a $2 escalation factor is not reasonable. We will adopt as reasonable the staff's projection of purchased power prices.

5. SDG&E, UCAN, City, and staff have stipulated to the use of the current GN-5 rate to be used for forecasting purposes. If the current CAM proceedings result in a different GN-5 rate, the parties have stipulated that SDG&E should be authorized to make an adjustment by advice letter filing to be effective on the date filed to protect both the ratepayers and investors.

6. We find the above stipulation to be reasonable and will adopt the current GN-5 rate for the purpose of this decision and will authorize SDG&E to make an adjustment by advice letter filing to be effective on the date filed should the Commission authorize a different GN-5 rate during the forecast period.

7. An average LSFO inventory of 960,000 barrels and average diesel oil inventory of 80,000 barrels are reasonable for the forecast period.

8. Allowing SDG&E to underlift the entire HIRI contract volume at an average underlift fee of $5.50 per barrel represents the best economic choice in the circumstances from the total company perspective.

9. Selling 35,000 barrels of surplus diesel oil at an estimated loss of $156,800 in the forecast period represents the best economic choice in the circumstances from the total company perspective.

10. Staff counsel recommends that the Commission adopt the same treatment for sharing of fuel oil losses adopted by this Commission for PG&E in D.84-08-118.

11. It is reasonable to adopt the principle established in D.84-08-118 and have the shareholders bear 8% (AER portion) of the fuel oil sale losses estimated in the forecast period.

12. It is reasonable to use the Bankers' Acceptance rate as the carrying cost of fuel oil in inventory.

13. It is reasonable to adjust the 50 basis point adder to the commercial paper rate adopted in D.91926 in OII 56 for SDG&E to a 25 basis point adder to be used as the balancing account rate because of the upgrading of SDG&E's commercial paper from A2/P2 rating to an A1/P2 rating.

14. SDG&E's incremental energy rates including SONGS 2 & 3 are reasonable and SDG&E is authorized to use the new incremental energy rates.

15. It is reasonable for SDG&E to revise its Preliminary Statement Section 9(m)(2) in the manner recommended by the staff in Exhibits 16 and 34.

16. The staff's estimated balances of the ECAC and ERAM balancing accounts are reasonable and are adopted for this proceeding.

17. The adopted resource mix and the ECAC and AER derivation shown in Tables 1 and 2 are reasonable.

18. It is reasonable to pass through in ECAC rates the $45,060,000 refund ordered by D.84-12-01-026 for the Tesoro disallowance over a 12-month period.

19. An ECAC rate decrease of 0.049¢/kWh, an AER increase of .015¢/kWh, and an ERAM rate decrease of 0.198¢/kWh are reasonable.

20. The above rate adjustments would produce a net revenue decrease of $24.7 million.

21. Because the revision date of November 1, 1984 is past, this interim order should take effect on the date of issuance.

Conclusions of Law

1. SDG&E should be authorized to file revised tariffs designed to adjust revenues as follows:

ECAC	$ (5.2 million)
AER	1.5 million
ERAM	(21.0 million)
Total	$(24.7 million)

(Red Figure)

2. The changes in rates and charges authorized by this decision are justified and reasonable.

INTERIM ORDER

IT IS ORDERED that:

1. San Diego Gas & Electric Company (SDG&E) is authorized to file with this Commission revised tariff schedules reflecting the following rate adjustments:

a. ECAC rate decrease of 0.049¢/kWh.

b. AER increase of 0.015¢/kWh.

c. ERAM rate decrease of 0.198¢/kWh.

Such filing shall be in conformance with the provisions of General Order 96-A, and shall become effective on the date of filing but not earlier than January 1, 1985. The revised schedules shall apply only to services rendered on or after the effective date of the tariffs.

2. Consistent with our recent decision in SDG&E's general rate case (D.83-12-065) the System Average Percentage Change Method will be used to allocate the above revenue changes among customer classes. (See Appendix A.)

3. SDG&E shall continue to use its bankers acceptance rate as its carrying cost on fuel oil in inventory.

4. The 50 basis point adder to the Commercial Paper rate authorized for SDG&E by D.91926 as the balancing account rate is reduced to a 25 basis point adder.

5. SDG&E shall file revised Preliminary Statement Section 9(m)(2) in the manner recommended by the staff in Exhibits 16 and 34.

6. SDG&E is authorized to use the new incremental energy rates including SONGS 2 & 3.

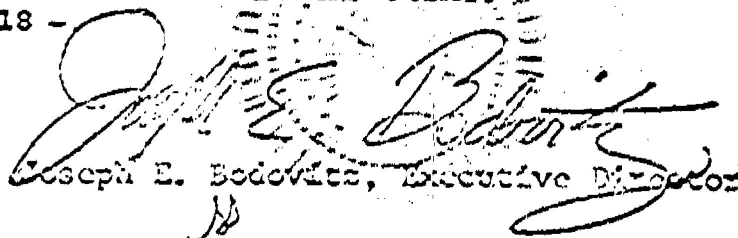
7. SDG&E is authorized to make an adjustment to the adopted AER rate by advice letter filing to be effective on the date filed if the Commission should authorize a different GN-5 rate during the forecast period.

This order is effective today.

Dated December 28, 1984, at San Francisco, California.

DONALD VIAL
President
VICTOR CALVO
PRISCILLA C. GREW
WILLIAM T. BAGLEY
FREDERICK R. DUDA
Commissioners

I CERTIFY THAT THIS DECISION WAS APPROVED BY THE ABOVE COMMISSIONERS TODAY.



Joseph E. Bodovitz, Executive Director

APPENDIX A

San Diego Gas & Electric Company
Allocation of Revenue Changes by Customer Class

Class of Service	Adopted Revenue MM$	%
Domestic Service	-9.11	(2.17)
General Service-Regular	-8.93	(1.95)
General Service-Large	-6.39	§2.00†
Agricultural Power	- .28	(2.10)
Street Lighting	-	-
Total	-24.71	(2.03)

Adopted Rate Changes
(¢/kWh)

Classification	Base	ERAM	ECAC	AER	Total
1. Residential	.005	(0.198)	(.049)	.015	(.227)
2. Commercial/ Industrial	(.006)	(0.198)	(.049)	.015	(.238)
3. Agricultural Power	.004	(0.198)	(.049)	.015	(.228)
4. Lighting	0.232	(0.198)	(.049)	.015	-