

Decision 89 09 091

SEP 27 1989

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 Rates)
and Charges for Electric, Gas,)
and Steam Service.)

Application 84-12-015
(Filed December 17, 1984)

And Related Matter.)

I.85-02-010
(Filed February 6, 1985)

OPINION ON PETITION FOR MODIFICATION OF DECISION 89-02-074

San Diego Gas & Electric Company (SDG&E) filed a petition to modify Decision (D.) 89-02-074 on March 21, 1989. The petition requested modification to the decision in three areas. The Commission's Division of Ratepayer Advocates filed its protest to the petition on April 14 and opposed each of SDG&E's proposed modifications. Utility Consumers Action Network (UCAN) wrote a letter to the assigned Administrative Law Judge (ALJ) on March 21, and this letter was circulated to the primary parties involved in this phase of this proceeding. The letter suggested slightly different wording for one of SDG&E's proposed modifications, but UCAN did not oppose SDG&E's petition. SDG&E replied to DRA's protest on May 3.

The first modification proposed by SDG&E had to do with the analyses leading up to its decision to enter into a power purchase agreement with the Public Service Company of New Mexico (PNM). SDG&E objects to a portion of D.89-02-074 that suggested that SDG&E had not reevaluated fuel price forecasts made in May 1985 until early November 1985, after the PNM contract was signed. SDG&E cites the record to show that the reevaluation had been

performed in October and was incorporated in the final decision analysis of the PNM contract. SDG&E requests modifications to reflect these facts.

UCAN agrees that the decision misstates the facts about when the analysis was performed. However, UCAN suggests a different replacement wording to maintain the decision's emphasis on SDG&E's failure to give adequate weight to variation in fuel prices in coming to its decision on the PNM contract.

DRA opposes the requested change. DRA believes that the specific modification proposed by SDG&E would completely change the tenor of the paragraph and would conflict with the Commission's determination that SDG&E had failed to give adequate consideration to the effect of variation in fuel prices on the cost-effectiveness of the contract. DRA believes that no change to this portion of the decision is warranted.

From our review of the record, we conclude that the paragraph cited by SDG&E contains an error of fact that requires correction. We agree with DRA and UCAN, however, that the specific wording SDG&E proposes undermines the conclusions reached in that section of the decision. We will make appropriate modifications to the decision to correct the error of fact and maintain the point of the discussion.

SDG&E's second requested modification concerns the time period covered by the Energy Cost Adjustment Clause (ECAC) reasonableness review that was incorporated in this proceeding. The stated period of the review covered May 1, 1984, through April 30, 1986. On one topic relating to PNM's obligation to obtain back-up transmission service to support the contract, the proceeding considered events that occurred somewhat beyond the stated period, because of a close link to events in the period of the reasonableness review. SDG&E seeks clarifications to assure that its activities related to the back-up transmission service

issue through April 30, 1986, will not be subject again to a review for reasonableness in a later proceeding.

UCAN appears not to oppose this modification.

DRA opposes the modification on the ground that no actions beyond May 5, 1986, were examined in this case.

SDG&E has correctly pointed out that events outside the stated review period were considered in connection with the back-up transmission issue. Neither SDG&E nor DRA, however, has correctly defined the scope of the actual consideration in this case. SDG&E's request amounts to a finding of the reasonableness of "all issues through June 30, 1986 relating to PNM's obligation to obtain back-up transmission service." The focus in the record in this proceeding was on two specific events beyond the review period--the extension of PNM's deadline to May 5, 1986, and a letter agreement of June 18, 1986. Because the stated period did not cover events beyond April 30, we are reluctant to conclude, as SDG&E apparently has, that all issues connected with back-up transmission service through April 30 have been addressed. We will modify the decision to clarify the scope of our review on these issues.

The third requested modification concerns the basis for the parties' answers to questions that the Commission posed for the rehearing that led to D.89-02-074. The Commission posed six questions relating to the operation of the Southwest Power Link (SWPL) balancing account. One of those questions asked about SDG&E's expected need for capacity and energy. The decision summarized the parties' responses by stating their apparent agreement that SDG&E has no need for capacity until at least 1990. SDG&E believes that it is important to clarify that the parties' conclusions were based on a resource plan it submitted in October 1986 that included the PNM contract and other resources. SDG&E fears that this statement will be read out of context and misinterpreted.

DRA protests this modification. DRA states that its answers to the Commission's question were based on studies other than SDG&E's resource plan, and other evidence also supports the statement in the decision.

We will modify the decision to clarify that the decision's statement summarizes the parties' responses, which were based on various sources.

Findings of Fact

1. SDG&E filed a petition to modify D.89-02-074 on March 21, 1989. DRA filed its protest to the petition on April 14. UCAN wrote a letter to the assigned ALJ on March 21, and this letter was circulated to the primary parties involved in this phase of this proceeding. SDG&E replied to DRA's protest on May 3.

2. D.89-02-074 contains some errors of fact and passages that require clarification.

Conclusion of Law

D.89-02-074 should be modified to correct errors of fact and to clarify certain passages, as pointed out by the parties to this proceeding.

O R D E R

Therefore, IT IS ORDERED that:

1. The following sentence is added to the paragraph at the bottom of page 5 of D.89-02-074:

(The period of review extended through June 18, 1986, on the issue of PNM's obligation to obtain back-up transmission service, because of this issue's close ties to events that occurred during the period of the reasonableness review.)

2. The paragraph that begins on the bottom of page 70 and continues on page 71 is modified to read:

SDG&E has thus failed to explain why it gave so little consideration to the possibility that

oil prices would decline or remain flat, at least for the early years of the contract. Because SDG&E knew by May 1985 that the PNM contract did not make economic sense if fuel prices continued to be stable, SDG&E should have placed more importance on the revised fuel forecasts it developed in mid-October 1985. SDG&E's failure to pursue this weak link in its support for the PNM contract led it to overlook some of the options it still had. In addition, an earlier reconsideration of the effect of fuel prices on the desirability of the PNM contract would have given SDG&E valuable ammunition in its efforts to negotiate a better deal with PNM. It was unreasonable for SDG&E's decision makers to give so little weight to the effect of fuel price forecasts on the cost-effectiveness of the PNM contract.

3. The second full paragraph on page 112 is modified to read:

We have now completed our review of the reasonableness of SDG&E's entering into the contract with PNM and of the administration of the contract from its inception through April 30, 1986. We have also reviewed SDG&E's actions related to the extension of PNM's deadline to May 5, 1986, and to the letter agreement of June 18, 1986, concerning PNM's obligation to obtain back-up transmission service. Except for the amounts we have disallowed, all other expenses SDG&E incurs under this contract are reasonable. However, SDG&E's administration of the contract after April 30, 1986, except for the issues relating to PNM's obligation to secure back-up transmission service, will be reviewed for reasonableness in future ECAC cases.

4. The first sentence of the second full paragraph on page 144 is modified to read:

The parties seem united in concluding, based on various demand forecasts and resource plans, that SDG&E has no need for additional capacity until 1990 at the earliest.

5. Finding of Fact 40 is modified to state:

According to the resource plans and demand forecasts the parties relied on in responding to the Commission's questions about the SWPL balancing account, SDG&E has no need for additional capacity until 1990 at the earliest.

6. Except to the extent granted herein, SDG&E's petition to modify is denied.

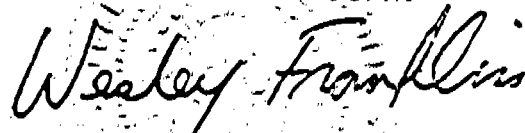
This order is effective today

Dated SEP 27 1989, at San Francisco, California.

G. MITCHELL WILK
President
STANLEY W. HULETT
JOHN B. OHANIAN
PATRICIA M. ECKERT
Commissioners

Commissioner Frederick R. Duda,
being necessarily absent, did
not participate.

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



WESLEY FRANKLIN, Acting Executive Director

oil prices would decline or remain flat, at least for the early years of the contract. Because SDG&E knew by May 1985 that the PNM contract did not make economic sense if fuel prices continued to be stable, SDG&E should have placed more importance on the revised fuel forecasts it developed in mid-October 1985. SDG&E's failure to pursue this weak link in its support for the PNM contract led it to overlook some of the options it still had. In addition, an earlier reconsideration of the effect of fuel prices on the desirability of the PNM contract would have given SDG&E valuable ammunition in its efforts to negotiate a better deal with PNM. It was unreasonable for SDG&E's decision makers to give so little weight to the effect of fuel price forecasts on the cost-effectiveness of the PNM contract.

3. The third full paragraph on page 112 is modified to read:

We have now completed our review of the reasonableness of SDG&E's entering into the contract with PNM and of the administration of the contract from its inception through April 30, 1986. We have also reviewed SDG&E's actions related to the extension of PNM's deadline to May 5, 1986, and to the letter agreement of June 18, 1986, concerning PNM's obligation to obtain back-up transmission service. Except for the amounts we have disallowed, all other expenses SDG&E incurs under this contract are reasonable. However, SDG&E's administration of the contract after April 30, 1986, except for the issues relating to PNM's obligation to secure back-up transmission service, will be reviewed for reasonableness in future ECAC cases.

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