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Decision 91-07-009 July 2, 1991

BEFORE THE PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

Application of PACIFIC GAS AND ELECTRIC COMPANY for Authority to Adjust its Electric Rates Effective November 1, 1990; and for Commission Order Finding that PG&E's Gas and Electric Operations during the Reasonableness Review Period from January 1, 1989, to December 31, 1989, were Prudent.

ORIGINAL

Application 90-04-003 (Filed April 2, 1990)

(U 39 M)

(Appearances are listed in Decisions 90-10-062 and 90-12-066.)

Additional Appearances

Adrian Hudson, for California Gas Producers Association, interested party.
Patrick L. Gileau, Attorney at Law, for the Division of Ratepayer Advocates.

INTERIM OPINION ON REASONABLENESS REVIEW

1. Summary of Decision

The Commission concludes that the electric system operations of Pacific Gas and Electric Company (PG&E) were reasonable in 1989, except that reviews of parts of PG&E's operations have been deferred for future hearings in this and in other proceedings. This decision does not address the reasonableness of special electric contracts, gas system costs, certain gas-related electric system costs, operations at PG&E's Geysers Unit 15, PG&E's response to steam curtailments at the Geysers Power Plant, or the revenue requirements associated with PG&E's Low Income Rate Assistance (LIRA) program.

2. Background

PG&E filed this application in accordance with the Energy Cost Adjustment Clause (ECAC) and other offset provisions of its tariffs. The proceeding is also governed by the Commission's rate case plan for energy cost offset proceedings.

Two earlier decisions in this proceeding, Decision (D.) 90-10-062 and D.90-12-066, adopted PG&E's ECAC revenue requirements, qualifying facility (QF) payment factors, and electric revenue allocation criteria. This decision addresses PG&E's request for a finding that its 1989 gas and electric operations were reasonable, but does not complete the Commission's reasonableness review. The Administrative Law Judge ruled that special electric contracts and gas-related costs will be considered in future decisions in this proceeding, and that operations at PG&E's Geysers Unit 15 will be considered in conjunction with Investigation (I.) 90-02-043, which was instituted by the Commission after PG&E removed Unit 15 from service.

3. The Evidence

The only parties to submit testimony were PG&E and the Commission's Division of Ratepayer Advocates (DRA). PG&E submitted a "Report on Reasonableness of Operations" to demonstrate the reasonableness of energy costs incurred in the record period. In addition to subjects that have been deferred, the report reviews PG&E's resource utilization, steam plant performance, petroleum fuels management, QF contracts administration, and the LIRA program. The report includes an appendix describing settlement of a dispute between PG&E and the Sacramento Municipal Utilities District (SMUD) concerning purchases of capacity from SMUD's Rancho Seco Power Plant.

DRA's Fuels Branch and Energy Resources Branch determined that PG&E's operation of hydroelectric generation plants; cycling of base-load fossil fuel plants; QF purchases; fuel oil inventory management, including prices paid for purchases and average

inventory levels; and fuel oil burns related to economic conditions and curtailments were reasonable. DRA also determined that PG&E's fossil fuel generating units complied with the Thermal Performance Standard adopted by the Commission. DRA believes that PG&E operated its geothermal generating units at the Geysers Power Plant (excluding Unit 15) reasonably, but notes that a review of PG&E's actions in response to steam supply problems at the plant was deferred to the next ECAC proceeding by D.89-05-064.

DRA states that it cannot judge the reasonableness of purchased power expenses, because they are tied to gas prices, until PG&E completes an ongoing investigation of its gas procurement practices. Similarly, DRA cannot complete its review of gas curtailment fuel oil burns until the gas investigation is completed.

DRA's Energy Research and Analysis Branch audited balancing account transactions, reviewed balancing accounts for compliance with Commission directives, conducted test checks of energy-related purchases and expenses, and reviewed other financial and accounting records. The Energy Research and Analysis Branch submitted a separate report describing the audit results.

4. Discussion

There are no contested issues between the parties. The matters to be decided are whether PG&E's electric system operations during the record period should be found reasonable and whether specific DRA recommendations should be adopted.

4.1 Reasonableness of Electric System Operations

The evidence clearly shows that except for deferred matters, PG&E's electric system operations during the record period were reasonable. DRA's Fuels Branch and Energy Resources Branch conducted a comprehensive review of PG&E's operations and concluded that PG&E operated its electric system in a prudent manner during the 1989 record period. In its audit report DRA states that it takes no exception to recorded expenses for purchased power, fuel

oil, nuclear fuel, and geothermal steam (other than for Geysers Unit 15).

DRA's audit included an examination of the settlement of a 1986 PG&E claim against SMUD for the return of excess capacity payments. Based on the audit and supplemental information furnished by PG&E and SMUD, DRA concluded that it is reasonable for PG&E to recover a previously disputed amount in rates, through a debit to the ECAC balancing account. DRA confirmed that PG&E received \$15 million worth of excess capacity from SMUD in 1985, but will collect just \$7.3 million from ratepayers for that excess capacity.

4.2 DRA Recommendations

By D.89-07-062 and D.89-09-044 the Commission ordered energy utilities to give qualifying low-income ratepayers a 15% discount on their energy bills. The costs of this LIRA program are collected through a surcharge which is accorded balancing account treatment. Ordering Paragraph 12 of D.89-09-044 directed the Commission Advisory and Compliance Division (CACD) to make a comparison of LIRA program administrative costs and participation rates among utilities and to recommend any necessary program modifications. DRA states that because the CACD report was not available when its testimony was filed, a review of the reasonableness of PG&E's LIRA revenue requirements must necessarily be delayed to the next ECAC proceeding. Our order will specifically provide for this delayed review.

Steam supply curtailments at the Geysers Power Plant are of great concern to DRA because of the higher cost of alternative sources of power. Because a review of the reasonableness of PG&E's response to steam supply problems has been deferred to the 1990 record period proceeding (by D.89-05-064), DRA is still investigating those problems. DRA recommends that PG&E continue to provide information about curtailments in quarterly reports to DRA.

Ordering Paragraph 2 of D.89-05-064 already requires PG&E to furnish DRA with quarterly reports on Geysers' curtailments for a period of two years from the June 25, 1989 effective date of that decision. DRA presents us with no reason to require continuation of the quarterly reports after that two-year period. The 1990 record period (and earlier record periods for Geysers' steam curtailments) will be reviewed in Application (A.) 91-04-003, filed by PG&E on April 1, 1991. Under the rate case plan for energy utilities (D.89-01-040, Appendix D), DRA's reasonableness testimony is due on July 30, 1991. We see no reason to require automatic filing of reports after that date. Of course, expiration of the requirement for quarterly reports will in no way affect DRA's ability to obtain any information that it needs from PG&E.

DRA recommends a change in the calculation of PG&E's fuel oil inventory carrying costs. DRA believes that the calculation should reflect any newly adopted inventory level and purchase price on the later of the ECAC revision date or the effective date of an ECAC decision. PG&E joins in the recommendation.

The joint recommendation is appropriate and we will adopt it. To avoid confusion, we clarify that "ECAC decision" refers to a decision which adopts a forecast of inventory level and price for fuel oil.

5. Proposed Decision

The Administrative Law Judge's proposed decision was filed with the Commission and served on the parties on May 24, 1991. No comments have been received. The findings, opinion, and order made in the proposed decision are confirmed by this decision.

Findings of Fact

1. DRA reviewed PG&E's operations for the record period, January 1, 1989 to December 31, 1989 and concluded that:
 - a. PG&E operated its hydroelectric generation plants reasonably.
 - b. PG&E acted reasonably in cycling its base-load fossil fuel plants.
 - c. PG&E's QF purchases were reasonable.
 - d. PG&E's fuel oil inventory management, including prices paid for purchases and average inventory levels; and fuel oil

burns related to economic curtailments were to be set at a reasonable level.

- e. PG&E's operation of fossil fuel generating units was in compliance with the Thermal Performance Standard adopted by the Commission and therefore was reasonable.
- f. PG&E's operation of its geothermal generating units at the Geysers Power Plant (excluding Unit 15) was reasonable.

2. PG&E received \$15 million worth of excess capacity from SMUD in 1985, but, under terms of settlement of a dispute with SMUD, PG&E will collect just \$7.3 million from ratepayers for that excess capacity.

3. The reasonableness of special electric contracts, gas system costs, purchased power expenses, and gas curtailment fuel oil burns will be considered in future decisions in this proceeding. Operations at PG&E's Geysers Unit 15 will be considered in a separate phase which is consolidated with I.90-02-043.

4. The reasonableness of PG&E's actions in response to steam supply problems at the Geysers Power Plant was deferred to the 1990 record period ECAC proceeding by D.89-05-064.

5. The review of PG&E's LIRA program revenue requirements could not be completed in this proceeding.

6. D.89-05-064 already requires PG&E to furnish DRA with quarterly reports on Geysers' curtailments for a period of two years after June 25, 1989, and it is not necessary to require automatic filing of reports after that date.

7. DRA and PG&E agree that the fuel oil inventory cost calculation should reflect any newly adopted inventory level and purchase price on the later of the ECAC revision date or the effective date of an ECAC decision.

Conclusions of Law

1. PG&E's electric system operations and expenses during the 1989 record period were reasonable; however, the reasonableness of special electric contracts, purchased power expenses, gas curtailment fuel oil burns, Geysers Unit 15 operations, PG&E's response to steam curtailments at Geysers, and LIRA revenue requirements cannot be determined at present.

2. It is reasonable for PG&E to recover \$7.3 million in rates, through a debit to the ECAC balancing account, in connection with the settlement of a dispute with SMUD for the return of excess capacity payments.

3. The review of PG&E's revenue requirements associated with its LIRA program should be completed in the PG&E's next ECAC proceeding.

4. There is no need to require continuation of quarterly reports on steam curtailments at the Geysers Power Plant.

5. PG&E's fuel oil inventory carrying cost calculation should reflect any newly adopted inventory level and purchase price as of the ECAC revision date or the effective date of an ECAC decision, whichever is later.

6. This proceeding should remain open for consideration of matters that have been deferred.

INTERIM ORDER ON REASONABLENESS REVIEW

IT IS ORDERED that:

1. Pacific Gas and Electric Company's (PG&E) revenue requirements associated with its Low Income Rate Assistance program shall be reviewed in PG&E's next Energy Cost Adjustment Clause (ECAC) proceeding.

2. PG&E shall calculate its fuel oil inventory carrying costs by including any newly adopted inventory level and purchase price as of the ECAC forecast period revision date or the effective

date of an ECAC decision which authorizes an inventory level and price, whichever is later.

3. A.90-04-003 remains open for consideration of special electric contracts; gas system issues and gas-related electric system issues; and Geysers Unit 15 issues, which are consolidated with I.90-02-043.

This order becomes effective 30 days from today.

Dated July 2, 1991, at San Francisco, California.

PATRICIA M. ECKERT
President
G. MITCHELL WILK
JOHN B. OHANIAN
DANIEL Wm. FESSLER
NORMAN D. SHUMWAY
Commissioners

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

Neal J. Shulman
NEAL J. SHULMAN, Executive Director