L/MD:jb

Decision No. 82 03 117 MAR 29 1982 ORIGINAL

BEFORE THE PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

Application of PACIFIC GAS & ELECTRIC COMPANY for authority effective April 1, 1982 to implement an electric rate stabilization plan, to decrease its ECAC rates in accordance therewith, or in the alternative to decrease rates in accordance with the ECAC tariff, to establish an Electric Revenue Adjustment Mechanism rate pursuant to Decision 93887 and to make other adjustments.	Application No. 82-02-09

ORDER TO SHOW CAUSE

On March 19, 1982, the Pacific Gas & Electric Company (PG&E) filed its application and prepared testimony in Application No. 82-02-09, its regularly scheduled Energy Cost Adjustment Clause (ECAC) proceeding. On March 26, 1982, the utility informed the Commission staff that it had concluded renegotiation of its fuel oil purchase contract with Chevron U.S.A. It is immediately apparent from the ECAC filing made by PG&E that the utility forecasts the need for substantially less oil than is under contract to be delivered from Chevron during the next four-month ECAC period and beyond. Indeed, PG&E's own witnesses state in their prepared testimony that, "the favorable 1981-1982 winter conditions will result in a surplus of the Company's most expensive energy resource, fuel oil, during 1982." (Prepared testimony of Stanley J. Skinner, p. SJS-1.) In addition, PG&E raises the spectre of substantial costs associated with reducing this oil surplus through oil sales or extra storage of oil. We note that PG&E's application in this proceeding forecasts the use of barely one million barrels of oil during the next four months (ECAC Calculation of Change in Revenue Requirement, p. 3-3, Electric Department Results of Operations) while PG&E is contractually obligated to purchase up to fifteen million barrels during calendar 1982.

One solution proposed by the utility is attempting to reduce deliveries of fuel oil. (Prepared Testimony of Stanley J. Skinner, p. SJS-1, Prepared Testimony of Michael J. Pretto, p. MJP-6.) Of the options available to PG&E and to the Commission, the reduction of oil deliveries is the one which requires the most direct and prompt action. Sales can be negotiated after deliveries are made, and storage can continue for an indefinite period of time, but reduction or suspension of oil deliveries already scheduled must be initiated promptly to have any effect.

Such a suspension is made possible by the newly executed PG&E-Chevron oil purchase contract which contains a contingency provision that effectively relieves PG&E of its obligation to purchase fuel oil in order to effect,

> "compliance, voluntary or involuntary, with a direction or request of any government, instrumentality thereof or person purporting to act with authority of any government..." §4.3.2

In addition, special provisions are made in the contract for a contingency where,

> "deliveries are reduced or suspended by [PG&E] on account of a direction or request under paragraph 4.3.2 that [PG&E] reduce or suspend its purchases of Low Sulphur Fuel Oil in favor of a different fuel mainly for the reason that the alternative fuel is believed to be more economical..." §6.1.2

The Commission is most concerned both with securing an adequate and reliable supply of fuel for PG&E's operations and with ensuring that the ratepayers of PG&E receive the maximum relief from high fuel costs afforded by the abundant hydro-electric power forecast for this coming year. In order to accomplish this the Commission believes that prompt action to reduce deliveries of unnecessary fuel oil to PG&E should be considered immediately and implemented if warranted. We will, of course, require that any action taken as a result of this order to show cause be reviewed during the annual review ECAC held later this year as that proceeding is structured to provide a much more detailed analysis of the utility's entire resource planning and procurement operations. Any action taken by the Commission in this matter will be confirmed or modified at that time as appropriate.

It is to provide the Commission and the parties to this proceeding with the relevant information required to determine the necessity of a suspension of fuel oil deliveries that this order is issued. Therefore,

IT IS ORDERED that:

1. Pacific Gas & Electric Company shall file with the Commission on or before the date specified below a pleading responsive to this order to show cause why the Commission should not require PG&E to suspend deliveries of residual fuel oil scheduled under the terms of its oil purchase agreement with Chevron U.S.A.

2. As a part of the pleading described in the preceding ordering paragraph, PG&E is further ordered to provide the following information to the Commission for the purpose of providing a factual summary of the fuel oil purchase statistics already before the Commission and to make this information readily available to the other parties to this proceeding:

a. PG&E's most recent forecast for:

1. Residual fuel oil burn for the next four months commencing April 1, 1982, and for the remainder of 1982, stated in bbls./day and total barrels.

2. Current and planned level of oil inventory by month for all of 1982.

3. Price of residual fuel oil to be purchased under the Chevron contract as of the present and as of December 31, 1982.

4. Schedule of oil deliveries currently anticipated under the Chevron contract, including date of delivery and number of barrels.

5. Natural gas burn for electric generation for the next four months and for the remainder of 1982, stated in equivalent barrels of oil/day and in total equivalent barrels.

6. Current forecast of natural gas availability, for the next four months and for the remainder of 1982, stated in billions of cubic feet, equivalent barrels of oil, and M^2 BTU, and also expressed as a percentage of forecasted natural gas requirements, and as a percentage of total electric generation requirements.

7. Current forecast of the natural gas supply mix anticipated for the next four months and for the remainder of 1982, specifically including percent of total gas supply figures for gas from Canadian, domestic U.S. and California natural gas suppliers.

8. For each of the suppliers listed in the answer to Item 7, the current forecast of natural gas prices to PG&E for current deliveries of gas and the forecasted price for December 31, 1982, stated in $/therm and in $/equivalent barrels of oil.

9. Current forecast of sales of residual fuel oil required by PG&E's current schedule of oil deliveries, oil burn, and inventory situation, including information for the remainder of 1982 regarding sale price of oil, volumes to be sold in barrels, dollar loss on each barrel, and dollar savings in energy expenses as a result of displacing oil with alternative fuels. If more than one alternative fuel is used for the comparison, provide detailed information on the volumes and price of the assumed fuel mix. Sufficient information to evaluate optimal economics of the proposal must be furnished.

10. Current estimate of the savings in energy expense from suspending all of PG&E's oil deliveries for the remainder of 1982 and the resulting substitution of alternate fuels in the resource mix. Give volumes and prices of fuels assumed in the comparison. For natural gas prices, assume alternatively the current GN-55 rate, the rate forecasted in PG&E's latest ECAC filing, and cost of acquisition including transmission cost.

b. Any and all other information PG&E considers relevant to the Commission's consideration of reduction of oil deliveries, including a statement of policy by the utility.

3. PG&E is to present the above-described pleading for filing with the Commission no later than 4:30 p.m. on Monday, April 5, 1982, at the docket office of the Public Utilities Commission, 350 McAllister, San Francisco, California. Copies of PG&E's responsive pleading shall be served on all parties to Application No. 82-02-09.

4. The regularly scheduled hearings in this ECAC proceeding shall take place as scheduled and will proceed to a final decision independently of this special procedure, although PG&E, the Staff, or any party thereto may present additional testimony to conform their presentation in said hearings to the outcome of the Commission's actions in this matter.

5. Any order issued by the Commission as a result of this order to show cause shall be reviewed and confirmed or modified as appropriate in the final decision of the Commission in PG&E's regularly scheduled annual review ECAC in 1982.

6. The Executive Director of the Commission shall serve copies of this order upon all parties to Application No. 82-02-09.

7. Any interested party to Application No. 82-02-09 who wishes to inspect the PG&E-Chevron U.S.A. oil purchase agreements during the pendency of this proceeding may do so by making a request to the Commission's Executive Director in writing.

The effective date of this Order is the date hereof.

Dated MAR 29 1982 at San Francisco, California.

JOHN E. BRYSON
President
RICHARD D. GRAVELLE
LEONARD M. GRIMES, JR.
VICTOR CALVO
PRISCILLA C. GREW
Commissioners

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

Joseph E. Bodovitz

Joseph E. Bodovitz, Executive Director