

Decision No. 82 04 073 APR 12 1982**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 Electric)
 Rates and Charges, to Establish an)
 Annual Energy Rate and to Make Certain)
 Other Rate Changes in Accordance with)
 the Energy Cost Adjustment Clause as)
 Modified by Decision 92496.)

Application 60865
 (Filed September 4, 1981)

ORDER TO SHOW CAUSE

On September 4, 1981, San Diego Gas & Electric Company (SDG&E) filed its original application in this proceeding, the first annual review ECAC proceeding to be held for SDG&E. Subsequently two amendments to the application were made and hearings were held in December 1981 and February 1982. During the course of the hearings testimony was introduced regarding SDG&E's present fuel oil contracts with its two suppliers, Hawaiian Independent Refinery, Inc. (HIRI) and Tesoro. The testimony indicated that in spite of significant reductions in low sulphur residual oil contract volumes, SDG&E is still obligated to purchase 3,500 barrels of residual oil a day over and above its forecasted requirements. (Transcript pages 169, 214.) The result of this oversupply is that SDG&E forecasts a 1.5 million barrel excess of residual oil for 1982. (Transcript p. 568)

The cost of such oversupply problems should be of concern to both shareholders of utilities and to their ratepayers. Extra expenses may be incurred for storage of excess oil, sales of excess oil in today's markets may result in a net loss to the utility, and in the worst case, alternative fuels such as natural gas may be rejected to accommodate the more expensive fuel oil which is overflowing storage facilities.

It is the Commission's intention to avoid such costs whenever possible by carefully scrutinizing the fuel oil procurement policies of the utilities. We have just concluded such an investigation in the annual ECAC review in this proceeding, and we believe that immediate action on our part may be necessary to ensure that SDG&E avoids deliveries of unnecessary fuel oil with a corresponding savings to ratepayer and shareholder alike. Based on an analysis of the fuel oil purchase contracts currently in force between SDG&E and its suppliers, the Commission believes that it is possible to take action which may achieve such savings by requiring SDG&E to suspend oil deliveries.

The SDG&E-HIRI contract contains a force majeure provision which excuses either party from performance of the contract in the face of:

"regulation, laws, ordinances of any government or governmental entity having or claiming to have jurisdiction, or any other cause not reasonably within the control of the affected party which materially affects SDG&E's obligation to receive and use LSFO or HIRI's obligation to deliver LSFO."
(Section 8.01)

The SDG&E-TESORO contract similarly contains force majeure provisions which operate upon any of the following events:

"Acts of federal, state or local government or any agency thereof, compliance with requests, recommendation, rules, regulations or orders or any governmental authority or any officer, department, agency or instrumentality thereof."
(Section 12(a))

While fuel supply contracting is the responsibility of utility management, these oil supply contracts appear to allow suspension of oil deliveries only in the event of a government request or order. Prior to considering whether to order a decision to require a suspension of deliveries of fuel oil, however, the Commission wishes to ensure that it has complete and accurate information regarding the contractual positions of SDG&E and its suppliers and the requirements of SDG&E for fuel oil. The Commission does not intend to act without ensuring that SDG&E's ability to provide service to its ratepayers has not been jeopardized and that SDG&E is making the most efficient use of resources that it currently has under contract. To make such a determination, therefore,

IT IS HEREBY ORDERED that,

1. San Diego 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 SDG&E to suspend or reduce deliveries of residual fuel oil scheduled under its existing contracts with HIRI and Tesoro.

2. The aforementioned responsive pleading should include a detailed cost benefit analysis of such a suspension as contrasted with continuing with deliveries of fuel oil under the contracts as they currently stand and a discussion of all matters of fact and policy regarding fuel oil procurement which SDG&E considers relevant to a possible reduction or suspension of deliveries by force majeure. A copy of the responsive pleading shall be served upon all appearances in this proceeding.

3. In addition to the responsive pleading, SDG&E shall furnish to the Commission copies of all fuel oil purchase contracts negotiated between SDG&E and any other parties as of the date of the filing of the responsive pleading.

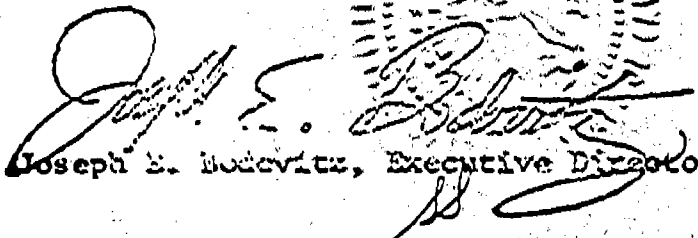
4. SDG&E is to present the above described pleading for filing with the Commission no later than 4:30 p.m. on Thursday April 29, 1982 at the Docket Office of the Public Utilities Commission, 350 McAllister Street, San Francisco, California. Copies of the responsive pleading are to be served on all parties to Application 60865.

This order is effective today.

Dated APR 12 1982, at San Francisco, California.

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

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


Joseph E. Rodovitz, Executive Director