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Decision 82 12 056 December 13, 1982 December 14, 1982 December 14
BEFORE THE PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA
In the Matter of the Application and stool lossedar to -teve yes gridrando of SAN DIEGO, GAS & ELECTRIC (sector de trocas cole noteicos ed)
- COMPANY, for Authority to revise () - its Energy Cost Adjustment: Chause () all 1.0 a concersor aplay SWE all 3.0
Rate, and to revise its Electric (Application 82-08-14) and to revise its Electric (Filed August 5, 1982) and Electrical Revenue Adjustment of (Filed August 5, 1982) Electrical Revenue Adjustment of (Filed August 5, 1982)
Mechanism established by the second degradous deposit SBE redrevel. Decision 93892.
ందుకార్లో ఉంది ప్రధానపడునంత ప్రాశారా నరపర్క పోరా <u>న రాష్ట్రం సౌకర్యానిని</u> శాత్యప్రాజాలగా తెందరాన్ తాల జూలా గుపోందార్గులని పారాళానికార్ ఏలాలెట్ కోర్ . 206 . 200
William L. Reed, Randall W. Childress, Jown M. Jo To clothed
Jeffrey Lee Guttero, and Barton M. Myerson, Attorneys at Law, for San Diego Gas & Electric Company, applicant. John W. Witt, City Attorney, by <u>William S.</u> <u>Shaffran</u> , Deputy City Attorney, for the City of San Diego; <u>Antone S. Bulich</u> , Jr., Attorney at Law, for California Farm Bureau Federation; <u>Lawrence A. Waks</u> , for Tesoro Petroleum Corporation and its subsidiaries; and <u>Daniel E. Gibson</u> and Steven F. Greenwald, Attorneys at Law, for Pacific Gas and Electric Company; interested parties.
Douglas Long, for the Commission staff.
ు సంగార్ సౌకర్య సంసాధ్య సాధికార్ సరాదర్ సరాయానికి కోడడికారికుడు గురారాలు ఉంది. సాధానికి సాధానికి సాధానికి సాధాన
PARALOS DURDER PROBANDLORENDER NOTEN De desculor allas nor abec no la
This decision establishes an Electric Revenue Adjustments and

This decision establishes an Electric Revenue Adjustments our Mechanism (ERAM) materior San Diego Gas & Electric Company of SDG&E). Soft a 0.134 cents per kilowatt-hour (¢/kWh)Sito recover the estimated over CACE undercollection of \$13,126,000 fin base-rate revenues as offer al second ac 220 for a second is around anythe betaconof eas in MCT pebblori 2.571 for a second MAR base SEA . DADE bealdson eaf in synotasymi . shood for an ap abilin

November 1, 1982. The decision also specifies that under ERAM, SDG&E must compare recorded base-rate revenues for services rendered during the month with the authorized base-rate revenues for the month in computing any over- or undercollections. Classical grades of the month of the second cated

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The decision also adopts an Annual Energy Rate (AER) of 0.267¢/kWh which represents a 0.172¢/kWh decrease over the prior AER of 0.439¢/kWh authorized in Decision (D.) 82-04-115 or a decrease in annual AER revenues of \$16,743,000. The adopted AER for the period-November 1982 through October 1983 includes 2% of the forecasted energy and purchased power costs for the period and revenue requirement based on an authorized inventory level of 1,505,000 barrels of oil in inventory.

The decision allows projected underlift charges for the period October 1, 1982 through December 31, 1983 of \$45,064,000 to Tesoro Alaska Petroleum Company (Tesoro) plus \$1,821,144 to Chevron, U.S.A., Inc. (Chevron) to be amortized over a two-year period and to be recovered under Energy Cost Adjustment Clause (ECAC) rates with the undercollected amount to be held in the balancing account. The Commission is unable to determine the reasonableness of the underlift charges and directs the Commission staff (staff) to further scrutinize the underlift transactions. Therefore, the decision allows recovery of underlift payments through ECAC subject to refund, pending further reasonableness review.

The decision also increases the ECAC adjustment rate by 0.852¢/kWh or \$82,741,000 annually.....\$66,717,000 of this increase is due to the balancing rate switching from a negative rate of f 0.658¢/kWh to a positive 0.029¢/kWh rate. The memaining increase in com ECAC revenue requirements of \$16,024,000 is attributable to the second state increase in the ECAC offset rate of 0.165¢/kWh.C. The ECAC coffset orate as includes 70% of the forecasted carrying costs of excess fuel oil in inventory. The combined ECAC, AER, and ERAM increases total \$79.0 million on an annual basis.

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The decision finds that SDG&E has reduced its fuel oil action deliveries from Hawaiian Independent Refinery, Inc. (HIRI) from C . court 14,000 barrels per day minimum to 8,000 barrels per day minimum and and by suspending all Tesoro deliveries SDG&E has succeeded in balancing the deliveries with estimated requirements. I a sear dolaw lobogong gauging

n na an	- See and fraction (ACE peoply can ever constantion (ACE est 11. Introduction
	this application SDG&E requests the following rate
	freven to the second decompany is at the second to the
1 -	An increase in ECAC adjustment rates to the forecasted cost of reflect 98% of the forecasted cost of energy for the 12 months beginning a covel November 1, 1982, and the amortization of the estimated ECAC balancing account undercollection as of Novembersta, 1982.
2.	A decrease in the AER to recover the digate low makage a set in the AER to recover the digate low makage a set in the low more

2% of the forecasted cost of energy. 3. An increase in present base rates to amortize the undercollection in SDG&E's ERAM balancing account as of November 1, 1982 over a 12-month period.

The proposed rates under this primary proposal would result in an estimated net increase in SDG&Ets electric revenues of 8.5% or οδη ανα δυπατώ δίματατος ομαγορη γταμορίο Οπο ογματικό ομογραφίο συμορική σμότη τορί \$90.3 million.

SDG&E also presented an alternate method of calculating the

change in AER and the ECAC adjustment rate. Under SDG&E s alternate method of calculating the new AER, a forecast of oil sales gains and losses and underlift charges is reflected in the development of the new AER in addition to the forecast of carrying cost of foil in inventory and 2% of the forecasted cost of energy. Under SDG&E's

> ంగా లో ఎవసాందర ఇందులు ఎదురి సల్పండాలులో చెద్ద ఇండి Frequences and tol construct thinks of the second s

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alternate method of calculating the change in the ECAC adjustment rates, SDG&B's forecast of expenses only covers the four-month opposite period, November 1, 1982 through February 28, 1983, and excludes the effect of forecasted underlift charges. This differs from the account of primary proposal which uses a 12-month forecast period in calculating ... the ECAC adjustment rate and gives ECAC rather than AER treatment to oil sale gains and losses as well as underlift charges. The required rates under SDG&E's alternate proposal would result in an increase in electric revenues for the 12-month period beginning November 1, 4982 and of an estimated \$107.3 million stabile blog at constant ak

Eleven days of public hearings were held in San Diego, Los Angeles, and San Francisco before Administrative Law Judge (ALJ) Tomita. The matter was submitted subject to receipt of concurrent opening and closing briefs. Concurrent opening briefs were received from SDG&E, City of San Diego (City), Pacific Gas and Electric Company (PG&E), and the Commission staff (staff) ConSDG&E was the only party to file a closing brief. The matter is now ready for 3. An Anoressoe in present base rull to amortine the undersollistric in 2003/14 decision.

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The major issues in this proceeding are as follows r

1 1	Does the ERAM permit SDG&E to recover the batter to a give
	January revenue shortfall attributed to the
	based in part on services rendered in other 18072
st • •	December at 1981 rates and in part on services rendered in January at 1982 West and SEA the stands
ана (с. 1997) Стала (с. 1997) Стала (с. 1997)	: rates? de bre cassennie or lRão yer odr frieslyplos be bodter.
2.	Should gains and losses on sale of fuel interact the percent oil as well as underlift charges be given ECAC treatment or be included in AER?

3. What is the appropriate fuel oil inventory and an arread for AER purposes and what should be the ratemaking treatment for the carrying costs of excess fuel oil inventory?

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4. Are the fuel management practices of SDG&E 56003 reasonable for the record period July frances to deach war 1981 through June 30, 1982? ennonen indenderen politikandoar Is the revised HIRI contract which reduces SDG&E's minimum deliveries of low sulfur ask sector is? as fuel oil (LSFO) from 14,000 barrels per day to 8,000 barrels per day effective May 1, 1982 and the Tesoro Suspension 23 Automation and Liebercan Agreement which suspends deliveries of LSFO from Tesoro by a \$6.55 underlift charge per barrel reasonable? Are the staff's proposed disallowance of a stat listened 6. \$28,317, expenditure for a 125 horsepower to the start pump plus related expenses, a \$189,532 disallowance of a payment to Chevron for the second SDG&E's failure to give Chevron a 30-day advance notice of a sale of LSFO from HIRI to Tosco Corporation (Tosco), and the disallowance of \$7,531,300 of fuel oil .001547 sales losses reasonable? Should underlift payments for October 7. under the Tesoro Suspension Agreements beauting as a dever allowed for rate recovery? 8. Should the ECAC adjustment rate be based on a 12-month forecast period instead of the standard four-month forecast period? IV. <u>ERAM</u> af thre lettramoder Brod ا میشود. این استان استان استان این این استان این استان ا

staff's ERAM rate proposals hinges on SDG&E's interpretation that D.93892 in Application (A.) 59788 allows it to recover the so-called revenue shortfall in January as well as any difference in estimated test year base-rate revenues and actual revenues. SDG&E presented witnesses L. Viejo, C. Fonss, M. Malquist, and D. Hansen to support its position. Revenue Requirements Division's staff accountant D_______ Long testified for the staff. SDG&E contends that it suffered from a revenue shortfall in the month of January since under its cycle billing method: of recognizing revenues, recorded revenues in January are based in part on 1981 rates for services rendered in December and in part on 1982 rates for services rendered in January. Because of this revenue shortfall in January, SDG&E contends that it is impossible to earn the rate of return authorized in D.93892, and the Commission in recognition of this fact authorized SDG&E to recover such revenue shortfall through ERAM-

Staff witness Long disagreed with SDG&E's interpretation of D.93892 with respect to the January revenue shortfall. Long, testified that test year 1982 revenues will be actually recovered from the January 1982 billing period through the January 1983 billing period. Witness Long recognized that for recording and financial statement purposes SDG&E may wish to continue with its existing revenue recognition method but that for ERAM purposes only that portion of January revenues based on service deliveries made in January should be considered in comparing any January over- or undercollection. This requires an allocation of the authorized January base-rate revenues.

Long recommended that in developing the appropriate allocation factor, the utility compare the number of days of January sales included in the various billing cycles for January to the number of days of December sales at December rates. Based on this calculation the staff developed a factor of 54% as representative of January sales included in the January recorded billings. The 54% was applied to the authorized January base-rate revenues and compared to sales recorded January base-rate revenues related to January 1982. Sales to the determine the over- or undercollection for January. The staff field staff actions of the over- or undercollection for January and to be staff action and

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further recommends that at the end of the year, the unused 46% of the authorized base-rate revenues for January be compared with the section of the section for January 1983 in determining the total over- or undercollection for the year. Based on the staff methodology, the undercollection for January 1982 is \$986,316 rather than the \$7,194,492 claimed by SDG&E.

Dong also criticized the high interest assumptions used by SIG&E of 15.5% and 16.75% for August through October 1982 and the last known rate of 14.42% used in SIG&E in Exhibit 3 had recomputed its August interest actual August interest rates; therefore, the only sign of the interest computations are at issue are for the doctor estimated months of September and October.

City disagrees with both SDG&E and the staff on the purpose and functioning of ERAM. City contends that the creation of the twoway balancing account was to alleviate problems relating to a second differences between recorded and estimated sales. City contends that to ERAM should only be used to compare forecast sales to crecorded sales

and multiplied by a recorded base average trate to compute vany over-out of or undercollection. "City contends that ERAM was not vintended to to the include revenue differences arising from rate design problems or MARS to booking lag problems. The sector conduction were design problems or MARS to

PG&E supports SDG&E's interpretation of ERAM which permits at the utility to recover the so-called booking lag and enables the fiture utility to earn the test year base revenues authorized in D193892 fines the calendar year. Sold along Ex003 and Saldood out to MASE desord B. Discussion of each period at 2018 and 2000 out of you approve at exem

booking lag it would not have the opportunity to earn the rate of return authorized by D-93892. Both SDG&E and PG&E have a mistaken understanding that test year ratemaking and calendar year operating results should be identical.

Under test year ratemaking the Commission adopts a set of rates which will provide the necessary revenue requirements to cover reasonable expenses, taxes, and a reasonable return on the investment necessary to provide service to the utility's customers during the setimated test year period. For test year ratemaking purposes the commission assumes a perfect matching of revenues, expenses investment, and return on such investment. In order to more closely track the test year with the calendar year, the Commission under its Rate Case Processing Plan has attempted to establish general rate

case rate changes effective on the first of the calendar year. In adopting this practice, the Commission did not intend to make the second ratemaking test year synonymous with calendar year recorded results you of operations of your contained has been performed approaches

The Commission is well-aware that under SDG&E's accounting are practices, revenues for services rendered in a given calendar years are are not necessarily recognized in that calendar year. SDG&E's user of ERAM to attempt to obtain additional revenues to make up a perceived revenue deficiency resulting from its reluctance to recognize unbilled revenues for services rendered in 1981 because of possible additional income tax obligations represents an unreasonable interpretation of ERAM. In attempting to obtain additional revenues through ERAM for the booking lag, SDG&E is in effect attempting to make its ratepayers pay 1982 rates for services rendered in December .g 1981 at 1981 expense and return levels. There is no revenues

shortfall. The test year base-rate revenues sauthorized by the companies of the companies o

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Commission will be earned. Only the company's accounting methods prevent 1982 revenues from being recognized in total in the calendar year and result in part of 1982 revenues being recognized in the calendar month subsequent to the end of the calendar year.

matching of revenues with expenses, it has the option of recognizing or revenues for services rendered in December as unbilled revenues. We can understand SDG&E's reluctance to make such an accounting change since there is a possibility that the Internal Revenue Service (IRS) would require that such revenues also be reported for income tax for purposes. From a ratemaking standpoint, however, SDG&E should also be aware that our adopted test year rates include a provision for for income taxes based on the authorized level of revenues, and in deferring recognition of such income it is in fact deferring the tax for liabilities to the subsequent tax year.

We believe SDG&E's problems of not being able to directly match recorded calendar results with test year results can be readily solved by a proper explanation of its financial statements by SDG&E's own accountants and financial experts as well as by its independent See auditors. We do not believe it is appropriate or necessary for a nece ratepayers to bear additional revenue increases merely to enable the company to make its financial records coincide with test year b 500000 estimated operating results. A simple explanation that wiff SDG&E had recognized unbilled revenues of \$xx million as of December 31, 1982 our rate of return would have been xx% and approximate of equal the rate of return authorized by the Commission in D.93892 for test year 1982," should satisfy any informed investors that the Commission had provided SDG&E with a reasonable opportunity to earn its authorized by

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rate of return. We wish to reiterate that the matching of revenues and and expenses which SDG&E seeks through ERAM is obtainable, without accord misusing ERAM or by placing an additional burden on ratepayers by the simple accounting practice of recognizing unbilled revenues We disagree with City that the purpose of ERAM is strictly

to provide a mechanism to handle discrepancies between actual and docome estimated sales. We specifically titled the mechanism as a revenue and adjustment mechanism since we believe that in this eracin which we are working with previously untried rates and rate designs, it is conto appropriate to permit an adjustment for differences in revenues of block caused by unforecasted variances in consumption at various rate concerns levels of attacks and the permit and adjustment for differences in revenues of block

The only correct interpretation of ERAM is that the account Commission authorized the implementation of ERAM to enable SDG&E to earn the authorized level of base-rate revenues for the test year related to the services provided in the test year. If SDG&E's

accounting practices were modified to recognize revenues for services rendered in December but not billed until Lanuary 1983, as part of 1982 revenues, SDG&E's recorded base-rate revenues for 1982 would be avomatch the authorized base-rate revenues. The purpose of ERAM is or but purely and simply to match recorded base-rate revenues for services rendered during the month or the test year with authorized base-rate roo revenues for the month or for the year.

For the purposes of ERAM adjustments filed at four-month conintervals in conjunction with ECAC filings, it is appropriate to estimate the over- or undercollection where recorded figures for any months are not available as long as the estimated over- or pirons ". See undercollections are corrected to actual when the final figures are very available. For the purposes of this proceeding we will adopt the staff's methodology for calculating the over- or undercollection for the 10-month period January through October 1982 even though the staff methodology does not provide an exact monthly comparison of authorized base-rate revenues with recorded base-rate revenues for services rendered for each of the months. We will expect SDG&E to be true-up the ERAM over- or undercollections by the next ECAC filing. The We will also adopt the recorded August interest rates in arriving at the our forecasted ERAM undercollection as of Novembernds, 1982; of the second \$13,126,109. Table 1 shows the development of our adopted ERAM rate for of 0-134¢/kWh-

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SAR DileGO GAS & ELECTRIC COMPANY Electrical Revenue Adjustment Mechanismile and to see and Development of Uniform ERAM Rate <u>Item</u> Estimated Balance of ERAM Balancing Account as of November T, 1982 (Staff Revised): constant of floor that and aMS restance of and and (Staff Revised): constant of floor that and aMS restance of 3.07, 12641 bar Revenue Requirement Adjusted by Net- act constant and 2.0000 to-Gross Factor (Line 1 / 1.003797)* MS 12 Months Estimated Sales Applicable to ERAM Rates Proposed Total ERAM Rate From a constant and and and and and and and a standard abiver (Line 2 / Thine 3) of and and balance to and /kWh Esole .cosel 0.134.0 Present Total ERAM Rate Total ERAM Rate increase and and the set of the set of set of and the Line 4 - Line 5). Set of a standard and the set of the set of the set of set of the Core of the Set of the set of the set of the set of set of the set of the Core of the Set of the Core of the Set of the Core of the Set of the Core of the Set of the Core of the Set of the Core of the Set of t

*Includes effect of Employee Discount, Primary Voltagener of Discount, and San Diego City Franchise Fee Differential.

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A. SDG&E

1. Record Period Transactions and the provers solver wolldester the state

SDG&E's witnesses testified that the recorded period according

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overcollection in its ECAC balancing account as of June 30, 1982 course reflects the results of reasonable and prudent operations by SDG&E-course during the period July 1, 1981 through June 30, 1982. SDG&E-contends of that the staff's recommended disallowance of S28,317 from the second and balancing account for a 125 horsepower pump and associated labor and engineering is unreasonable since the expenditure was made under the terms of SDG&E's LSFO Transportation Agreement with Chevron. Under the substitution provision of the agreement, Chevron may substitute like-kind oil from other sources for delivery to SDG&E in San Diego in lieu of the HIRI oil being transported from Hawaii. The invoking of the substitution clause results in reduction of the transportation cost to SDG&E by \$0.92-per barrel. SDG&E claims that the payment for the pump was to protect the benefits of the substitution provision of and that the investment in the pump would be returned manyfold. The

SDG&E also disagrees with the staff's proposed disal Howance of the \$193,400 payment made to Chevron as required under the terms of the Chevron Transportation Agreement for SDG&E's failure to provide Chevron with a 30-day notice of the proposed sale of HIRI oil to Tosco. SDG&E's witness testified that due to the timing of the spot market sale, it was not possible to provide Chevron with the required advance notice without losing the opportunity to make the sale to Tosco. Moreover, SDG&E's witness contended that even after the payment to Chevron, SDG&E's electric ratepayers benefited by almost ST million from the sale. SDG&E submits that it would have been more nearly mismanagement if SDG&E had failed to enter into such a spot market sale.

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2. Fuel Oil Contracts and Fuel Oil Sales a contracts

SDG&E's witness Niggli assumed the position of manager, Fuel and Power Contracts in June 1981, just a month before the commencement of the reasonableness review period. In the 16 months of Niggli's tenure SDG&E has done the following:

- a. Renegotiated its LSFO contract with HIRI to reduce the contract minimum from 14,000 barrels per day to 8,000 barrels per day effective May 1, 1982 and also terminated the HIRI Gas Turbine Fuel Contract for 500,000 barrels per year.
- b. Negotiated further underlifts with HIRI where 4,000 barrels per day were underlifted between September 1984 and a company Jaruary 1982 and 6,000 barrels per day wereunderlifted until May 1982 when the new contract minimums took effect. The total cost of the record period underlifts from HIRI was \$4.4 million. The HIRI contract was also revised to include a deemed crude ... slate provision to establish a market price for oil rather than the price of the crude actually used. Under this provision SDG&E will pay the average market price for crude oil regardless of what supply HIRI actually uses, which has the effect of reducing the cost of crude by \$2.50 per barrel compared to the pricing under the old contract.
- c. The renegotiated contract will provide flexibility to receive up to 14,000 barrels per day on 90 days' notice should conditions require it between May 1982 and June 1986. There will also be a further reduction in the contract minimum to 6,000 barrels per day or SDG&E's requirement level, if that level is lower, beginning in July 1986. The price of HIRI oil for this period will be compared to SDG&E's cost of gas, Schedule G-61 rates from Southern California Gas Company (SoCal Gas). If the G-61 cost is less than the

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contract formula price, SDG&E will be o 100 100 - 2 required to take only minimum contract volumes if offered at the lower gas price. 2002 If HIRL chooses not to offer oil at such as rowed and the price, SDG&E is free to go to the spot market if the coil can be purchased foreat is target and less than the contract price. and ESETS and and all the

- d. Negotiated a Suspension Agreement with Tesoro effective October 1, 1982 which potentially removes the entire contracted supply of Tesoro fuel oil and equalizes SDG&E's supply with its requirements. The Suspension Agreement calls for an underlift fee of \$6.55 per barrel for all LSFO not delivered which equates to 15,056 barrels per day from October 1, 1982 through December 31, 1983 In addition, SDG&E will be liable for transportation underlifts to Chevron of \$1.69 per barrel through December 31, 1982 when the Chevron contract relating to Tesoro expires. The transportation underlifts for the two months of 1982 total \$1,214,096.
- Negotiated further underlifts with Tesoro. e. SDG&E's contracted supply with Tesoro at June 30, 1981 was 15,000 barrels per day. From July through September 1981, SDG&E underlifted 3,000 barrels per day at a cost. of \$6.67 per barrel. From October through the end of the year SDG&E underlifted 2,000 barrels per day for no charge. As of January 1, 1982 SDG&E and Tesoro entered into an operational agreement which called for Tesoro to deliver 12,500 barrels per day, 2,500 barrels less than the stated contract minimum, until the Suspension Agreement took effect on October 1, 1982. The total cost of underlifts from Tesoro 2.1 for the record period was \$1.8 million.
- Adjusted its use of natural gas to minimize-£. overall fuel expenses. SDG&E used all natural gas available to its power plants from July 1981 through January 1982

- Beginning February 1982 SDG&E reduced its accited at natural gas take for electric generation to create 300,000 barrels of storage space to conduct medium sulfur and higher viscosity fuel tests and since April 1982 burned LSFO while rejecting natural gas since the fuel oil spot market made it more economical to burn fuel oil than sell or store it.
- g. Sold 1.3 million barrels of oil during the review period when such sales assertedly produced a net benefit to the electric ratepayers. The fuel oil sales losses plus the cost of natural gas burned in place of LSFO resulted in a \$8,293,488 savings to electric ratepayers compared to the cost of burning LSFO. In addition, SDG&E contends that its electric ratepayers contributed an additional \$8,360,679 benefit to gas ratepayers as a result of the differential in G-61 rates (the price paid to SoCal Gas) and GN-5 rates (the price SDG&E's electric department pays SDG&E's gas department).
- 3. Tesoro Suspension Agreement and Underlifts

Although SDG&E's initial negotiations with Tesoro centered around the concept of finding a new cost basis for fuel oil, it was obvious that SDG&E's oversupply problems would not be relieved even if price reductions were obtained. Subsequent to D.82-04-115 and after the institution of the Commission's Order to Show Cause why the Commission should not require SDG&E to suspend or reduce deliveries of residual fuel oil scheduled under existing contracts, SDG&E and Tesoro entered into further negotiations. Based on updated fuel mix forecasts, it was evident that the entire Tesoro supply was in excess of SDG&E's needs. SDG&E determined that the best course of action was to underlift the entire amount of the Tesoro supply. In attempting to arrive at a reasonable underlift fee. SDG&E considered

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the options available for Tesoro's Kenai peninsula refinery of disposing of the fuel oil supply that would otherwise be supplied to SDG&E. Tesoro's Kenai refinery produces approximately 12,500 barrels per day of LSFO based on a 46,000- to 48,000-barrel throughput of crude. SDG&E perceived the options available to Tesoro as follows:

- a. Reduction of LSFO product volumes not the considered feasible without addition of the highly sophisticated and costly of the vertex equipment.
- b. Reduction of crude throughput not considered feasible because it would result in a loss of market share for Tesoro's light products in Alaska where Tesoro is the major supplier of motor gasoline and aviation turbine fuel. Furthermore, Tesoro's long-term contract to purchase royalty crude from the State of Alaska requires certain minimum operating levels at its refinery to assure supplies of products to Alaskan consumers.
- c. Sale of LSFO in the spot market this alternative would result in a loss of \$7.50 per barrel compared to the SDG&E contract price.

Through negotiations SDG&E and Tesoro ultimately agreed on the an underlift fee of \$6.55 per barrel. Tesoro's witness EPCromey, a set of the the \$6.55 underlift fee was not sufficient to make and the set of the oil SDG&E was underlifting. Part of the set of the the the oil SDG&E was underlifting. Part of the set of the the the Solos agreeing to the \$6.55 underlift fee was consideration for Tesoro's agreeing to the \$6.55 underlift fee was consideration for the oil SDG&E was underlifting. Part of the set that Tesoro still saw SDG&E as a potential customer some time in the set of the \$6.55 per barrel underlift fees are reasonable and to not provide excessive benefits to the supplier. SDG&E asserts that renegotiation of the HIRI contract together with the Tesoro

Suspension Agreement have brought SDG&E supplies in line with its requirements. The Suspension Agreement also includes a provision by which SDG&E reserves the right to recall up to 6,000 barrels per day of LSFO from Tesoro upon 45 days notice prior to any quarter. Solar Should SDG&E exercise this option, no underlift fee would be charged on the oil delivered. SDG&E states that the Suspension Agreement is expected to reduce SDG&E's fuel expenses by approximately \$42 million during the 15-month term of the agreement (October 1, 1982) through December 31, 1983).

4. <u>Sales Forecasts</u> forecasts based on econometric forecasting forecasts sales based on econometric forecasting for the techniques which consider variables such as weather, customer for the additions, economic activity, price, and conservation. SDG&E SDG&E in the forecast period. SDG&E in the presented the only sales estimate for the forecast period in Setting ECAC for the traditional fourits primary proposal uses a 12-month forecast period in Setting ECAC for the traditional fourmonth period used in its alternate proposal. In the traditional four-

5. APR conversion for the state bis bas eldeland end dated over

SDG&E calculated the 2% component of the AER consistent with the methodology used in D.82-04-115 while the staff deleted certain fuel service charges, variable wheeling expenses, and revenues from the Department of Water Resources (DWR) in its computation. Staff and SDG&E also differ on the price for natural gas in the AER period. SDG&E omits any nuclear power generation relating to San Onofre Nuclear Generation Station (SONGS) Unit 2 in the AER period since SDG&E proposes an adjustment to AER when SONGS Unit 2 becomes operational and given rate treatment through the Major Additions Adjustment Clause (MAAC). SDG&E requests ECAC treatment of underlift payments and gains and losses from sale of fuel oil in its primary proposal whereas in its alternate proposal it includes such items in the AER. Both the primary and alternate AER proposals include a revenue requirement associated with a proposed average oil inventory volume applied to a November 1, 1982 moving average inventory price. The return requirement used is based on a 12.92% rate of return for two months in 1982 and a 13.25% rate of return for 10 months in 1983. The revenue requirement associated with such proposed inventory volume for AER purposes is \$21,383,700-

SDG&E urges the Commission to adopt its minimum winter inventory level of 1.4 million barrels of LSFO, a base level is recover inventory of 1.8 million barrels and a probabilistic inventory of 2.2 million barrels. SDG&E's witness Mays testified that a 2,000-barrel per day envelope was necessary to accommodate swings due to events beyond SDG&E's control and justified SDG&E's 2.2 million barrels of LSFO for computing the revenue requirements associated with fuel oil in inventory for inclusion in the AER.

SDG&E believes that oil sales and underlifts should be subject to ECAC recovery as shown in its primary proposal because from these items are variable and difficult to forecast accurately, and adopting firm estimates can serve as a disincentive to future actions because no flexibility exists to recover admittedly prudent expenses. B. <u>Staff</u> a serve as a disincentive for loci mintree

1. Record Period Transactions and to the strate of mort becaver Balancing Account

The staff contends that SDG&E's electric energy management practices and policies during the record period, were controlled by its excess LSFO supply. During the record period, SDG&E sold 149 gWhr of electricity above its own forecasted sales in A.60865, burned 7,397,202 barrels of LSFO valued at \$329,389,022, and received 7,180,669 barrels of LSFO costing \$321,414,368. SDG&E also sold 551,713 barrels of LSFO out of inventory and an additional 765,269

barrels before inclusion into inventory on which combined sales SDG&E is suffered a loss of some \$15,508,117 during the period. The staff is further contends that although SDG&E used 35,507 million cubic feet of natural gas for electric generation during this period, it also rejected an additional 11,265 million cubic feet of gas and burned fuel oil instead.

The staff agrees that SDG&E's increase in TSFO inventories was partly due to SDG&E's policy of taking all purchased power account offered which was substantially more than had been forecasted because of the warm and very wet winter of 1981-1982. This practice had the benefit of lowering SDG&E's costs of sits fuel mix but also placed the company in the position of storing or burning fuel foil once sits for 110 forecasted underlifts included in the AER had been used for SDG&E conducted an economic analysis which showed that it would be cheaper at to burn the foil than store it and carry it in inventory until 219855. 65

The Fuels and Operations Branch (FOB): staff has taken no Editored exception to SDG&E's energy management practices during the records and period; however, the Revenue Requirements Division staff accountants have recommended the disallowance of a pumphand appayment to Chevron on made by SDG&E which has been discussed previously. Staff accountant to Chevron and long further recommended that the ECAC balancing account be adjusted to a ratepayers and shareholders will share in the closses from fuelcoil as sales incurred in the record period. Clong testified that the to the factor SDG&E would incur carrying costs associated with fuel of inventories a of \$21,882,000 for the AER period April through October 1982 SS,122,000 of the carrying costs related to the authorized inventory of 1.5 million barrels of fuel of Cande \$13,760,000 cwas the carrying dis costs for 1,720,000 barrels of excess fuel coil inventory. The school of Commission included all of the carrying costs related to the 1.5 closed million barrels authorized fuel oil inventory and one-half of the carrying costs related to the excess fuel oil inventory in developing the AER. The remaining half of the carrying costs on the excess fuel oil inventory, or \$6,880,000 was to be borne by the stockholders of SDG&E.

Witness Long further testified that SDG&E currently projects the carrying costs for fuel oil inventory for the April and the through October 1982 AER period would be \$14,350,700 cinstead of the office \$21,882,000 projected in D.82-04-115. Consequently, SDG&E's new off the shareholders will be bearing none of the carrying costs and in factor of will collect \$651,300 in rates over the total projected carrying gasging costs. Long believes this is grossly unfair to the ratepayers and optic that SDG&E's fuel coil sale losses should be reduced by \$7,531,300 or food (\$6,880,000 plus \$651,300) plus applicable interest incorder to have of SDG&E's shareholders bear some of the burden resulting from the excess fuel oil inventory problem a support of 2005 or courseous

The Revenue Requirements Division staff Precommends the polyage adoption of the four-month forecast of ECAC expenses since situates even complies with the intent of D.92496 so Such four-month forecasts we shan permits rapid revisions to reflect changes in price and presource mix to 3 on a more current basis. The FOB staff recommends the adoption of a SDG&E's primary proposal to develop an offset revenue requirement based on a 12-month forecast of ECAC expenses. FOB believes this proce procedure will result in greater rate stability works around find field.

2. Fuel Oil Contracts and Fuel Oil Sales / Lat tob 000.388. 120 10

Staff submits that SDG&E's actions to reduce its firm fuel end oil supply were reasonable and that SDG&E has been successful in E. The reducing the 29,000 barrels periday deliveries to 8.000 barrels periods day which SDG&E asserts matches its requirements. Staff counsel also add states that part of the reason for SDG&E's success was due to the sold of Commission's Order to Show Case (D182-04-073) which spurred SDG&E add to C into further negotiations with Tesoroid for the subply of two 441.858.848 of Staff further contends that if SDG&E so fuels subply of the subply of

situation had been in proper balance, its ratepayers would have?. 300.838 realized net savings over and above those claimed by SDG&E by not having to reject natural gas to burn fuel oil. Furthermore, SDG&E and a would not have to collect in its AER an allowance of \$6,880,000 for of carrying costs on excess oil in inventory accession about word about in

Long also recommended that SDG&E be placed on notice that 100% the incremental energy costs incurred as a result of the closedown of 20 SONGS Unit 1 for sleeving repairs may be subject to futures a word to a disallowance depending on the Commission's treatments of sleeving 50.000 repairs in A.61138 of Southern California Edison.Company (SoCal est clos Edison). He further recommended that underlift payments understhese est resore agreement for October 1982 of \$3,045,750 to Resore and o set clos \$620,000 transportation underlift to Chevron should not be allowed dered since the Commission had already allowed \$2,035,000 of underlifts infect the AER for the seven-month AER period ended October 343 1982. Despective Moreover, the underlifts relate to fuel oil volumes which were already considered by a the Commission. The staff claims that if recovery of the October's underlifts are allowed, SDG&E with reap a windfall benefities

3. Tesoro Suspension Agreement and Underliftsplatted 000.981.0 to Under the Tesoro Suspension Agreement which was the subject as of D.82-09-023 dated September 8, 4982 and which resulted with the billedce termination of the Order to Show Cause, almost seven million barrels are of LSFO are to be underlifted at an underlift fee of 36255 percented ac side 15 for and 100 cause of a tast be billed of 36255 percented ac barrel, or a total cost of \$45,064,000th Indaddition, SDG&EOwillober was subject to transportation underlift frees of \$1,823,144 for the period ta October 1, 1982 through December 34,71982 on The combined cost would mode be \$46,885,144 over the life of the agreement and for the AER period to November 1982 through October 1983, the anticipated cost would be \$38,903,500 of allow are waster at a consist regard of an object be

The staff believes the provisions of the Suspensionar continet Agreement are reasonable in light of the savings, which will accrue to an the benefite of SDG&E's electric and gas ratepayers to FOB; staff too bloom witness Chow made calculations. to show that the Suspension Agreement and will generate \$6 million savings to the electric customers and about \$40 million of revenue to gas ratepayers in calendar year de83 or or of our Under Chow's calculation it would have cost the ratepayers about 30103 \$44.65 per barrel to burn the excess LSFO. \$55.66 per barrel of SDG&E sold the excess LSFO, and \$537.65 per barrel if SDG&E elected to store or the excess for future use to Chowks calculations clearly demonstrate of a that the options togunderlift, the fuels oils at \$6.550 per barrels and encould burning natural gas is the cheapest option available of Staff also 0.0023 believes that, based on the testimony of both Tesoro and SDG&E edd works witnesses, the \$6.55 underlift was about as low as fesoro would and as accept. Staff recommends that the Commission find the principles of tox the Suspension Agreement reasonable- dr cas yroraeval o'E8908 as yeseris

Staff submits that SDG&E's proposed average inventory levelous of 2,169,000 barrels of LSFO is too high There is no disagreement on the diesel fuel inventory of 251,000 barrels of Staff believes SDG&E's minimum fuel oil inventory requirements are overly SO-90-98.0 to conservative, and in projecting burn rates SDG&E used the most iteration conservative number produced by its probabilistic analysis. FOB CESE to staff witness Ghazzagh testified that a 90-day loss of SDG&E's

largest nonfossil fuel unit is overly conservative since SDG&E can get replacement oil in 28 days. Ghazzagh also testified that SDG&E for in the winter months assumes two days of gas outage together with the loss of the largest nonfossil unit. He believes that the probability of a gas outage and a SONGS Unit 2 outage occurring at the same time of is remote and therefore included only the larger amount of the two contingencies in developing his minimum requirements. The staff for recommends that the authorized inventory level for AER purposes be set at 1,254,000 barrels of LSFO and 251,000 barrels.

The FOB staff recommends that in order to create an still tease incentive for SDG&E to minimize its excess fuel oil inventory level. the Commission should adopt the FOB staff 's excess inventory at give and mechanism. Under the staff mechanism SDG&E would be required to a sala calculate on a monthly basis the carrying costs on the reasonable soo or quantity of excess fuel oil in inventory and then book 70% of this and the carrying cost into the ECAC balancing account with no recovery 000 could possible on the remaining 30% of the carrying costs. These balancing as account entries would be subject to annual reasonableness review and the SDG&E would still be required to choose the lowest cost method for disposing of excess fuel oil FOB staff believes this mechanism willow eliminate SDG&E's incentive to burn oil when it is cheaperito store goas the fuel oil. The mechanism also is alleged to provide a reasonable to sharing of the cost between ratepayers and shareholders because it and generates gains and losses in carrying costs on oil inventory which are close in magnitude to gains and losses in 2% of energy costs and Sak included in the AER. At the same time it provides sufficients allow the participation by the shareholders in the carrying cost of excession in inventory to encourage management to try to keep inventory levels at under control. Decetois cina con ota coverist inizers sello . reacerois soira βο κανασκό καιματαικό ούτσερων το υπού γαρ μών σύμαρα σομ βύμον.

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Staff accountant Long recommends no allowance for excession in fuel oil inventory; however, if the Commission believes some allowance should be granted, then he recommends allowing only 40% of the carrying cost on excess oil inventory to be recovered in ECAC. He would also permit AER treatment of carrying costs on the suthorized inventory level as proposed by the FOB staff. Staff counsel recommends that 50% of the carrying costs on excess fuel oil be recovered under ECAC similar to D-82-04-115.

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5-: AER to show a contract of the cost is signed cost 282, to start Staff disagrees with SDG&Eds primary proposal to have to

underlift charges as well as gains and losses on fuel oil sales be recovered through ECAC. Staff believes that these expenses are more or properly includable in the AER and the only reason why the Commission of placed fuel oil sale losses in ECAC in D.82-04-115 was incorder not for to compromise SDG&E's negotiations with Tesoro and HIRLs. The staff of o further notes that the Commission stated in D.82-04-115 we will include place SDG&E on notice that any request for allowance of such expenses in the November ECAC will be subjected to very rigorous Commission door scrutiny." (Page 31, mimeo.) is not be to to door of such expenses

Although the FOB staff recommends that the Jesoro underlifted charge be included in AER, the staff counsel suggests that it may be all proper to include Tesoro underlifts in ECAC because of the DEE occountie possibility that SDG&E may under its option request up to 6,000 locit of barrels per day of LSFO from Tesoro and avoid the underlift; charges as

Although FOB recommends inclusion of SONGS Unit 2 sales for AER purposes, the matter became a nonissue when SDG&E stipulated that it would request an AER adjustment when the MAAC rates are placed actor into effect. The staff also believes that SDG&E's forecast of energy costs are in a reasonable range with the exception of SDG&E's gas with price forecast. The staff believes its gas price forecast, which the would not result in any loss to electric customers because of underlift costs, is reasonable.

City supports the adoption of the average LSFO, inventory 60.81 recommended by the staff compared to SDG&E's request for an average los inventory of 2,169,000 barrels of LSFO and 251,000 barrels of diesel fuel oil. City disagrees with FOB's proposal for treatment of excess of fuel oil and supports the Revenue Requirements Division's primary for his recommendation that no recovery of excess fuel oil inventory carrying to costs be allowed. City further recommends that the Commission . Weivet disallow at least one-half of the fuel oil sale losses inForder to share these excessive costs between the ratepayers and shareholders. Out City also contends that since SDG&E burned oil and rejected gas from the February 1982 through June 1982, there should be no recovery of oil sale losses during the record period. So and the state is a period. The second period of the recovery of the second by the state of the second by the state of the second by the state of the second by the second by the state of the second by the sec

City argues that although SDG&E has made an extensive presentation to show how ratepayers gain substantial benefits from SDG&E's sale of 1,316,982 barrels of fuel oil at a loss of between \$15.5 and \$16.9 million during the record period, these oil sale losses and future underlift charges could have been avoided if SDG&E had not overcontracted for fuel oil during the past eight years. City further argues "In deciding whether to sell excess oil, and underlift excess oil or store excess oil SDG&E is deciding how to mitigate a loss to the ratepayers rather than benefiting the ratepayers."

City also opposes the concept of putting oil sale gains or losses and underlift payments in AER. City points out that if future AER revenues are not subject to a balancing account and forecast oil sale losses are included in AER, then the losses will not be subject to a reasonableness review. With respect to the forecasted fuel off sale loss of \$1,725,900 for the AER period, November 7, 1982 through October 31, 1983, City argues that any oil sales losses for the forecast period are, per se, unreasonable. If SDG&E is to underlift -0 15,056 barrels periday and still needs to sell excession, with believes that SDG&E has some extremely imprudent contracts is below and Therefore, City recommends that if forecast oil sales losses are to was be included in the AER rate, a zero oil sale loss should be adopted lost If oil sale losses are to be treated in ECAC, then the reasonableness is of future oil sale losses will be the subject of a reasonableness mooor

treatment and be subject to a reasonableness reviewed life the Tesoro-toke underlift payments are given AER treatment, and should SDG&E take will advantage of its option to purchase oil up to 6,000 barrels of LSFO-toke per day, on 45 days' notice, the S6-55 underlift fee will be reduced in

barrel-for-barrel. City expresses concern that if ECAC treatment is not provided, it might prove to be of economic advantage to SDG&E to end buy oil from lesoro and reduce underlift payments when this action 2002 would not be to the ratepayers wadvantage same colling 2.818 in 8.810

Discussion of ECAC and AER Issues

A. ECAC Balancing Rate flow or rearedw medicioeb of porgre reared writ

We will adopt the staff accountant's recommendation to disallow expenditures relating to the 125 horsepower pump from the ECAC balancing account as an item not properly chargeable to ECAC even though such expenditure may be prudent and advantageous to the ratepayers. We will not adopt the staff's recommendation to disallow the \$189,532 payment to Chevron for failure of SDG&E to provide Chevron with 30 days' advance notice of the sale of HIRI oil to Tosco. We are convinced that immediate action was required to take advantage of the opportunity to sell the LSFO and moreover the sale was beneficial to the electric ratepayers even after the payment made to Chevron.

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We will also not adopt the staff strecommendation to

disallow rate recovery of the October 1982 fesoro and Chevron comparison underlift charges in rates as an unfair duplicate recovery of leitheradic previously allowed costs. In Di82-09-023 we noted that underlift convocharges pursuant to the Suspension Agreement would replace fuel oil and sale losses as "the primary cost of SDG&E stefforts to reduce a more well inventory..., a cost which was not reasonably foreseeable when the odder AER rate was set earlier in 1982". In D-82-04-115 we had permitted - ow continued ECAC balancing account treatment of fuel oil sale dosses, a cost and so in D-82-09-023 we allowed similar treatment of fuel oil sale dosses, a cost the same scruting to be applied to all SDG&E costs pursuant to that o do agreement. So is the prime of the Suspension Agreement, subject to de agreement. So is the prime of the suspension account to account the same scruting to be applied to all SDG&E costs pursuant to that o do agreement.

No party to this proceeding has questioned the or flaw segreds reasonableness of the Tesoro and Chevron underlift charges. I Staffaried attests to a belief "that the provisions of the suspension agreement are reasonable in light of the savings that will accrue to the or encode benefit of SDG&E gas and electric ratepayers". good survey or bisto

We will authorize SDG&E to record the October of 982 moldances and underlift charges as well as future underlift charges pursuant to the of Suspension Agreement in the ECAC balancing account, subject to 0-90-98.0 continuing reasonableness review. We are persuaded less by SDG&E's of a reasoning that ECAC treatment comports with the evariable and coldencess unpredictable nature of such expenses than by the utility's warning, by borne out by its recent practice, that adoption of firm estimates can be created perverse incentives as We mote the warnings of Sam Diego and , som staff counsel that guaranteed recovery through AER of estimated divelant Tesoro underlift charges might induce SDG&E to buy oil and avoid such charges in contradiction to its ratepayers' interests.

However, we find that it would unduly burden present

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ratepayers for us to authorized the immediated pass through of the collected substantial underlift charges which SDG&B is now obligated to pay from Over the period October 1, 1982 to December 31, 4983 these underlift on payments are projected as \$45,064,000 to Tesorol plus \$1,821,144; to show Chevron, for a total projected cost of \$46,885,144; We will secol also authorize the recovery of these costs on an amortized basis over show two-year period beginning January 1, 1983, with the undercollected will amount to be held in the ECAC balancing account and to back for a expense to be recognized for recovery through ECAC at this time will be be one-half of \$46,885,144, for \$23,442,572, 1615, in future ECAC can be proceedings, it appears that any portion of the projected underlift of charges will not or should not be incurred, then the undercollected

In our recent D-82-09-023 terminating the order to show the terminating the order to show the terminating the order to show the termination of SDG&E, we directed the set staff to review the Suspension Agreement, with special focus on the sold reasonableness of the underlift charges; in this cannual ECAC review. Hearings in this proceeding began within two weeks of our tissuance of the D.82-09-023, Teaving staff little time to Sinvestigate this gissue and Ase3 a consequence; the record is inadequate to determine at this time the teach reasonableness of the \$6.55 per barrel sunderlift charge: Therefore, are we are making the underlift payments recovered through ECAC subjections to refund, pending further reasonableness review a Werespecially cannot note, and direct to our staff's attention for further second theory for the period for the focus of the other teacher to be active to the staff's attention for further second theory is a staff of the second theory of the second to the staff's attention for further second theory of the second theory of

ಾಸ್ ಅಂಗದರನೆಗೆ ಸಂ'ರಾರಂಧನೆ - .(ರಾರಂಶ್ರಿಷ್ಟ್ ಧಕ್ ಅಗೆರೆಟ್ರಾಂಥ್ ರತ್ರಾಸಂಪರ SDG&E now states that during the course of its . Nat dtiw red<u>i</u>esor negotiations, it perceived Tesoro's possible loss in the event SDG&E had refused to take or pay for oil deliveries to have been \$7.50 per barrel. Taking into account Tesoro's duty to mitigate its damages, if any, if SDG&E had suspended all deliveries from Tesoro. SDG&E might have reasoned that its maximum exposure in litigation was \$7.50 times the number of barrels remaining for delivery under the :೧೯, ೧೯, ೯೫ contract. SDG&E chose to accept-in place of the uncertainties of litigation--the certainty of a \$6.55 per barrel underlift fee, plus other underlift fees, totaling some \$46 million. Its maximum ుభిలు దిరిపాల additional exposure in the event of litigation was only \$.95 per barrel, or approximately \$5.4 million over the remaining life of the the contract (assuming an obligation of 12,500 bbl./day). SDG&E did not inform us until this proceeding of its estimate of Tesoro's probable loss per barrel. It may have settled for an underlift fee ಾಜದಂದವರಿಗೆ ಅಗೆದೆ. too close to its maximum damages.

We note further that Tesoro was able to arrange, almost immediately, a replacement buyer, Amerada Hess (Amerada), for the underlifted oil. Tesoro refused in our hearings to disclose the precise terms of the sale. The staff brief indicates the underlifted volumes, some 13,000 barrels per day, plus or minus 10%, are to be delivered to Amerada at its St. Croix refinery. The contract has a continuous evergreening provision enforceable at Amerada's sole option. The price-said by Tesoro to be at a discount from the New York harbor Exxon corporate price of No. 6 fuel oil (approximately \$32.28 when the staff brief was submitted)-may or may not include transportation in Tesoro's own ships (and associated transportation

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charges payable to Tesoro). Tesoro's witness said this sale, together with the SDG&E underlift payments, would not leave it "completely whole" in relationship to the former SDG&E contract, but without knowing <u>all</u> the terms of the Amerada contract, we are uncertain whether this is so. This is important because knowledge of the exact terms of the Amerada sale may help us judge the reasonableness of SDG&E's estimation that Tesoro would face a loss of \$7.50 per barrel if it sold the underlifted oil to a third party.

We need to know much more about: how SDG&E's negotiations with Tesoro actually proceeded; how SDG&E arrived at its estimate of a \$7.50 per barrel loss for Tesoro; what terms Tesoro negotiated in its sale agreement with Amerada; and what efforts SDG&E made to locate buyers for Tesoro. Without such knowledge we cannot assent to the reasonableness of the underlift fee.

We direct staff to begin at once a further investigation of the reasonableness of the \$6.55 underlift figure. We expect it to use all appropriate means of the discovery, including depositions and subpoenas if necessary. We will examine this issue again in SDG&E's next reasonableness review. We stress that we have no preconceived opinions and have not decided upon any disallowance of the underlift fees. We simply need more information before we could finally approve such fees, in view of our obligation to ensure that no imprudently incurred cost is passed on in rates.

We concur with the staff accountant's recommendation that a portion of the fuel oil sale losses incurred by SDG&E in the review period be disallowed in view of the fact that SDG&E did not incur the level of carrying costs related to excess fuel oil inventory forecast in the development of the last AER in D.82-04-115. This resulted from a combination of higher fuel oil sales and the burning of fuel oil while rejecting natural gas.

If fuel oil sales had been included in AER in D.82-04-115, as the AER was originally intended, there wouldObeCatcompensating factor between the higher than estimated fuel oil sale losses being offset by the lower than anticipated inventory level. However, <u>since</u> SDG&E was in the midst of negotiations with its suppliers, we allowed ECAC treatment of fuel oil sale losses in order not to prejudice such negotiations. We believe it would be unreasonable for SDG&E to recover all fuel oil sale losses, on the one-hand, and reap an undue benefit in the AER of inventory carrying costs. We disagree with the staff witness, however, as to the appropriate adjustment. The limit of the adjustment to recoverable fuel oil sale losses will be the S5,880,000 AER allowance for excess fuel oil inventory. We will, therefore, adjust fuel oil sale losses by \$6,880,000 plus applicable interest.

We will adopt a 12-month amortization period for the ECAC undercollections since it will help stabilize rates and was not opposed by any of the parties. Tables 2 and 2a show the calculation of our adopted ECAC balancing rate.

We will continue to provide for recovery of fuel oil sale losses through ECAC, in accordance with SDG&E's recommendation and for the same reason as noted above with respect to underlift charges. SDG&E asserts that its contract renegotiations have brought its fuel oil supplies in line with its requirements. In D.82-04-115 we placed SDG&E on notice that any request in this proceeding for allowance of fuel oil sale losses would be "subjected to very rigorous Commission scrutiny". SDG&E's showing that further oil sale losses are to be expected in view of unanticipated availability of low-cost purchased power was offered late in the proceeding and staff was unable to analyze it critically. Therefore, we will not forecast any oil sale losses in calculating the ECAC offset rate at this time.

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A MARTESAND DIEGOIGAS & ELECTRICS COMPANYIACIPITS SEA SEA SET OF C Calculation of Average ECAC Rate Change edd betweed not of Line<u>dNo. A standard with Item</u>r wold last grounds m**Units**well a<u>Amount</u>erifie Adjusted Estimated Undercollected to taking that all new ESOCE 1 Balance of ECAC Account as of Nov. 1, 1982 (From Table 2a) -- MS 2,830 2,830 12-Month Sales Applicable to Standard and Applicable to 2 ECAC Adjustment Rates and back and M2kWho down 91.71 17.38 per · ECAC: Balancing: Ratenbyrtsen syturds va ¢/kWhSE4 andr al a029 ad 3 4 ECAC Balancing Rate Adjusted of the .towever .theatew Chero 5 C 6 (L.4 - L.5)¢/kWh . to **-687**570 and Adopted Uniform Decreased in a-31 is represented with 7 Offset Rate (Table 3) ¢/kWh -165 1079200 Adopted Uniform Increase in ECAC Adj. Rate (L.6 + L.7) ¢/kWh .852-20 8

ECAC Adj. Rate (L.6 + L.7) of a crain of the 10 Mar 10 185220 Autor Saronalad CACE Sergels and the Les Inc. 12 19 19 19 19 10 10 (Red Figure)

losses through ECAC, in adoptioned with ECCHERT representation for the same reason as noted above with representations have browned obarged. EDG&B accerts that its contract representations have browned and file oil supplies in line with the requirements. In 2-36-04-110 we placed ECC&B on notice that any request in their proceeding for allowance of fuel oil sale losses would be "hubble-through theorem Commission constiny". SDG&B's convector to the response to be expected in view of unanticiperal eventher oil losses are to be expected in view of unanticiperal eventies of low-cost purchased in orderally. Therefore the proceeding of sale and unable to employ in collecting the losses and low-cost precise it collection of unanticiperal eventies of sale and off receive it collections of unanticiperal eventies of low-cost precise it collections of unanticiperal eventies of any off externation of collections of unanticiperal eventies of any cost collection of the construction of the restored of any cost collection in collection of unanticiperal eventies and any cost collection of the construction of the restored of any cost collection of the collection of the restored of the any cost construction of the construction of the restored of any cost of the cost of the collection of the restored of the cost any cost of the cost of the collection of the cost of the cost and the cost of the cost of the collection of the cost of the cost and the cost of the cost of the collection of the cost of the cost and the cost of the cost and the cost of the cost and the cost of the cost and the cost of the cost and the cost of the cost and the cost of the cost of

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	SAN DIEGO GAS & ELECTRIC COMPANY
	Calculation of Adopted ECAC Balancing roma
	Account as of November 1, 1982 and EMECE .
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····	nettion recommende ABE procomment of underlifter. MC The POE also includes 70% of the cartyre;
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3	To ISFO Sale Dosses and State SEA parendoor (6,880)
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5	Subtotaling of as yrothevel the lexi seense (16,789)
6	Interest on Adjustment) - c car actabacances (260)
7	Adjusted 6/30/82 Balance (10,000 otherstine) (17,049)
8	Actual July Overcollection (1,375) aven (1,588)
9	Actual Aug. Undercollection . Whever 7.022 and not shabivong a long of the state of
10 Satura	Estimated Sept. Undercoll for the second, 336 approximated ont to now interest interest (79) of or 19,256 ofto
11	Estimated Oct. Undercoll. 5,536 Interest (2)
1. 2. 1. 1. 1.	Adjusted ECAC Balance ginero sa grorneral fic fer terrero chili/1/82 to Table 2 a controng chemthert Secoge\$2,830 tare
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B- ECAC OPP	incentives for 806&3 to praidently manage its. Sadi this saven
10 <u>2020 011</u> Th	Set Rate
rate are the	following: av aces coate DAGE are prigoloves al
· '. •	Use of a 12-month or four-month forecast period. SDG&E and FOB staff both recommend concerce across the use of the 12-month period storawoid concerc for every rate fluctuations. The Revenue Requirements Division recommends the use of SEA and for
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the four-month period as being consistent with the intent of D.92496 in Order Instituting Investigation (OIL) 56- All parties have no objection to the 12-month amortization of the ECAC balancing rate.

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2. SDG&E includes underlift costs in its calculation of the ECAC offset rate while the staff excludes underlifts from ECAC and recommends AER treatment of underlifts. The FOB also includes 70% of the carrying costs of excess fuel oil in inventory in the ECAC offset rate. SDG&E includes the entire carrying cost of fuel oil inventory in AER. The Revenue Requirements Division recommends AER treatment for the carrying costs of authorized fuel oil inventory with no rate recovery on the carrying costs of excess fuel oil inventory as its primary recommendation and a 40% rate recovery of crit excess fuel oil carrying costs as an becompare alternate proposal.

. We have already resolved the issue of underlift costs by providing for their recovery, to the extent found reasonable through ECAC. As for oil inventory, we believe SDG&E's proposal places too much of the burden of excess fuel will on the rate payers and on the other hand, we believe-the Revenue Requirements Division's primary proposal of disallowing any rate recovery of the carrying costs of excess fuel oil inventory is overly severe. We believe the FOB staff's proposed treatment provides a reasonable balancing of ratepayers' and shareholders' interests while also providing incentives for SDG&E to prudently manage its fuel oil inventory and energy management practices. Table 3 shows the computation of our -Ξ adopted ECAC offset rates no conversions to seems toids on!

In developing our ECAC offset rate we will adopt the f22 area month forecast period recommended by SDG&E and FOB staff, for the purpose of promoting crate stability a clable 3a shows the derivation of the AER and ECAC component of fuel oil in inventory

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Table 3

SAN DIEGO GAS & ELECTRIC COMPANY

Adopted ECAC Offset Rate Change Based On Setacolline At Estimated 12-Month Period Beginning Novembert Ayod 9820405 Net System

		Net System	(843086.0 8 502 08	n (ba) 19 - 19 - 19 - 19 - 19 - 19 - 19 - 19 -
Line <u>No.</u>		Input M2kWhr	Estimated Price CAGE	<u>M\$</u>
1	Purchased Energy	3,113-8	4.618119¢/kWb2201430	,799.0
2	Nuclear Generation	541-4	0.830754¢/kwh 50074	
3	Natural Gas	5,279.9	550.00_ eM2Btu* 319	,682.6
4	Diesel Oil	0.7	724.53 ¢M2Btuseito DAC	
5	Residual Oil	2,441.6	676.32 #M2Bturgs -162-	
6	Subtotal Fuel and Purch. Energy	11,377-4	2022 15 63: 531:00	
7	Plus New Albion Resources Company Fuel Service Charge		1070800 1.180/ 1.191 1.012005 Rote 107000 Adj.	
8	Plus Variable Wheeling Exp.		or Franch, and 20012, t/KK	942.5
9	Less Revenue from DWR	kumo u nisou		546-7
10	Total Expenses Subject to 2% Calculation		633	,183.2
11	Less 2% of L.10		† 2	,633.7
12	Add 70% of Carry Cost of Excess Oil Inventory (From Table 3a)			,524-2
13	Plus Underlift Costs			, 442.6
14	Plus Carrying Cost Changing Value of Fuel Oil in AER			26.9
15	Total	(<u>648</u>	,513.2

(Table 3 continued)

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Table 3 (Cont.)

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Table 3a

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SAN DIEGO GAS & ELECTRIC COMPANY
Derivation of AER & ECAC Components of Oil Inventory
AER Component
Item ISFO Diesel Total
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Proposed Average - Vul varauval besoquat uti tuda nearan E2003 .czsit Inventory Volume (MBbls) 1,001 1,254 and 000. 251 and 0532 to signific
November 1. 1982 Moving - compared to be and the operation of the second state of the
Average Price \$/Bbl 42.17 41.47
Total Inventory Value 52,881 10,409 63,290
Carrying Cost*
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Estimated Excess
(Difference between al a curchars bethody rud . Sthemethyper yrotheydd SDG&B and FOB Inv of stream rathered wrotheydry rathered act
Levels) 1019151 40 .
November 1 Moving Average Price S/Bblocross lost comiss. Illy AEA borgoon and 42.17
NOVEMDET I MOVING
Average Price \$/Bbl 920000 lock oprion. Illy AdA bouquon and 42.17 Excess Trventory Value 202002 as EVE mort ornevet the .coeneq38,5854506w Carrying Cost***200 of Stiv chockbace .EEA tot bewells holds:67,463.9000
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Average Price S/Bbl 920000 lock opplot. Illy AA borgoon nr0 42.17 Excess Inventory Value 402000 at 200 not scaever int. coordays, 58515000 Carrying Cost***00 do dolw cases baco .AEA tot bewells actor 67,463.9000 Proposed Ratepayers at calcolog of swort A eldor .Pointer AC-SS.C at eber Share (70%) - scored scare s (To Table 3).ccourse AEA of ,524.2774 "Based on 12-92% rate of return and coor of blocks of composite net-to-gross multiplier of 1.5944 for two months in 9982 of of
November 1 Moving Average Price S/Bbl 220000 lock conclose line AEA bergoon null 42.17 Excess Inventory Value 2007 and EAC morth concert int, coordays, 5851564 Carrying Cost***000 do Stilw concertance, AEA tok bewolld moltast, 463, 463, 4000 Proposed Ratepayers AL Salacine at swoll A eldor .801-40-58.0 at elso Share (70%) a stored store at two at eldor .801-40-58.0 at elso "Based on 12-92% rate of return and stored blacks of composite net-to-gross multiplier of 1.5944-for two months in 1982-2010 at and plus 13-25% and 1-5857 for 10 months car to concert
Average Price S/Bbl 21999 lock oppies like appies like action like Add borgeon and 42.17 Excess Inventory Value 1997 an EAC more braneyer ban .coeneg38,5851564 Carrying Cost****** Add Star Add back and a side action addst 67,463. Theore Proposed Ratepayers Addition and sweat a side .collar addst 67,463. Theore Share (70%) a stored star and store a side .collar addst 67,463. Theore share (70%) a stored star add to be off return and store of bloods of composite net-to-gross multiplier of 1.5944 for two months in 1982. A store addst action plus 13-25% and 12-5857 for 10 months and store addst in 1983. **Based on August 1982 balancing
November 1 Moving Average Price S/Bbl 21950 lock epsiles like AEA besteres and 42.17 Excess Inventory Value 194754 as EAC most series in several in several second
Average Price S/Bol Severe last envioa like Kan bergene and 42.17 Excess Inventory Value Average as Edi not bewells concern;38,585455AW Carrying Cost***** A distributed as Edit of bewells contest;463.4000 Proposed Ratepayers at Selection of swort A elder .?? -40.58.0 at eller Share (70%) a size of second S(To Table;3),00% .courses EEA of ,524.2773 *Based on 12-92% rate of return and size of blocks of blocks of composite net-to-gross multiplier of 1.5944-for two months in 1982. A second allocks of plus:13.25% and de 5857 for 10 months SE to second in 1983. **Based on August 1982 balancing A account interest rate of 13.44% receiped a concerns.
November 1 Moving Average Price S/Bol Surves lock sources like Alls bergeon and 42.17 Excess Inventory Value 1947 and All not berget in . 20000038,5851556% Carrying Cost************************************
Average Price S/Bol Severe last envioa like Kan bergene and 42.17 Excess Inventory Value Average as Edi not bewells concern;38,585455AW Carrying Cost***** A distributed as Edit of bewells contest;463.4000 Proposed Ratepayers at Selection of swort A elder .?? -40.58.0 at eller Share (70%) a size of second S(To Table;3),00% .courses EEA of ,524.2773 *Based on 12-92% rate of return and size of blocks of blocks of composite net-to-gross multiplier of 1.5944-for two months in 1982. A second allocks of plus:13.25% and de 5857 for 10 months SE to second in 1983. **Based on August 1982 balancing A account interest rate of 13.44% receiped a concerns.

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The FOB staff_recommends the adoption_of its average inventory level of 1,254,000 barrels of LSFO and 251,000 barrels of diesel fuel. This recommendation is supported by the Revenue Requirements Division staff accountants. SDG&E claims that the staff inventory level is too low and exposes the ratepayers to additional risks. SDG&E argues that its proposed inventory level of 2,169,000 core barrels of LSFO and 251,000 barrels of diesel fuel is based on sound reasoning and the use of a probabilistic envelope SDG&E contends south that the staff average inventory level would pierce the minimum inventory level which should be inviolable. We will adopt the staff inventory level as reasonable. Our adopted authorized inventory level is an average inventory level and exceeds the average minimum inventory requirements. Our adopted authorized inventory level will be used for computing inventory carrying costs to be included in the AER. eveZ.

Our adopted AER will include fuel service charges, variable wheeling expenses, and revenue from DWR in arriving at the 2% fuel cost computation allowed for AER, consistent with the computation made in D.82-04-115. Table 4 shows the calculation of our adopted provide AER for the AER period, November 1, 1982 through October 31, 1983 and 2 It should be noted that our estimated price for natural gas is lower than the 557.49¢/M2Btu proposed by the staff witness. Our adopted estimate of 550.00¢/M2Btu is identical to the GN-5 rate governing sales by Southern California Gas Company (SoCal) for electric generation, as determined in D.82-12-047 .-. The evidence upon which that decision was based indicated a serious risk of fuel switching by GN-5 customers, which will significantly limit our ability to pass further gas cost increases on to these customers over this ECAC forecast period. Inasmuch as our estimate of SDG&E's cost of gas for electric generation is customarily tied to SoCal's GN-5 rate, the 550.00¢ price will be used in this proceeding, thus reducing the revenue requirement by \$900.000.

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Table 4 Clost

SAN DIEGO GAS & ELECTRIC COMPANY

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Derivatio	on of	? Revenue	e Requi:	rements	Associated line as 75	1
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Line <u>No.</u>	An a start start	Input <u>M2kWhr</u>	Estimated Price perceMS 2 31
1	Purchased Energy	3,113-8	4.618119¢/kWh 143,799.0
2	Nuclear Generation	541-4	0-830754 / white 6 4 497-7
3	Natural Gas	5,279.9	550.00 ¢M2Btu* 319,682.6
4	Diesel Oil	0-7	728.30 ¢M2Btu art Sorra 77.2 .
5	Residual Oil	2,441.6	683-2 ¢M2Btu 2 \ 31642,640-3
6 :	Subtotal Fuel and Purch. Energy	11,377-4	/₹
7	Plus New Albion		20 Proposé Unitora
10 10 10 10 10 10 10 10 10 10 10 10 10 10	Resources Company Fuel Service Charge		EEA hi schotosci (nWA/s) 1,749-0
8	Plus Variable Wheeling Exp.	27 B-220 - MAC	+S-SE-SE-S*
9	Less Revenue from	rodrug groot	2-2 280C2 21-80-38.4 15 546.7
10	Total Expenses Subject ato 2%	ایس ایس این است. می این از است این داد ایس ما بیش ایما دی این است ای داده داد ایس ما بیش	its BOAC billing factor, its AUSA. 2. Although ABS typically
	Calculation		Los deti essent 500 634,841.6
	- 2% of L. 10 ont		a lert to seece patring 6,68 bas
12	Carrying Costs of Authorized Fuel Oil in Inventory	ర ఇంకర్ రారంలు	2.sec onter bottlatog 811-40-98.C
	(Table 3a)	en en en en en en profes	sines concent CACE nevis Scines concent SEA <u>13,239.0</u>
13	Subtotal		- 2900200 - ALVO201 - ALX
14-	Allocated Amount		ont in stanitos n'Essert. 14
	for AER Recovery (L.13 x-0.990599)		nitalwolee to sesogra25,5692.00 trog

(Table 4 continued)

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Table 4 (Cont.)

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16	1.18% Adjusted Revenuescanter	ದರ್ಶರಗಳಿ ಕಳಿಗೆ ರಜರಗ <u>ಕರ್ಗಳಿಗೆ ಮಿಗೆ</u>	<u>303-2</u>
	Req. (L-14.+ L-15)	5.311.3	25,995-2 <u>-0%</u>
17	12-Month Estimated Sales (M2kWh) Corrections		ao 1804 ao 0 - 10 9,734 - 59 5
	0.063.910 mrtESMA OC.088	8-87 9- 8	oso lera <u>s/itwn</u> ?
18	Adopted AER CTESMA CT. 807		120 Isseit A
	<u></u>	2.14.2	120 1exples .267
19	Present AER 2.200(D282-04-115)	نه ارتما میں معمد اور ارتباط معمد اور	bro Love Lotordve d 439 Paren. Koergy
20	Proposed Uniform Decrease in AER (¢/kWh)		7 Flue New Albion Resources Company 172 Frel Service
	(¢/kWh)		egrado
	*D.82-12-	-047 - GN-5 F	late. eldelman erit 6

Findings of Fact

1. By A.82-08-14 SDG&E requests authority to make changes in the ECAC billing factor, its AER, and to establish an ERAM rate.

2. Although AER typically includes 2% of fuel and benergy costs, gains and losses from sale of fuel oil, underlift payments, and the carrying costs of fuel oil in inventory, the AER adopted in D.82-04-115 permitted gains and losses from sale of fuel oil to be given ECAC treatment.

November 1, 1982 through October 31, 1983.

4. SDG&E's estimate of the electric sales during the forecast period for purposes of calculating the AER is (reasonable and is adopted.

(Leaserson & Classe)

5. SDG&E's estimate of resource mix and its constituent costs during the forecast period for purposes of calculating the AER is concl based on the most recent, reliable information available and is concl adopted except for GN-5 rates (natural gas) are or con toost of SEA most

6. For natural gas GN-5 rates we will use the rates adopted in SDG&E's CAM proceeding, D.82-12-047 in A.82-09-21 of 55.0¢ per therm as reasonable for ECAC offset purposes and also for AER purposes. 000.800

7. 1,505,000 barrels of fuel oil in Thventory (1,254,000 acts at barrels of LSFO plus 251,000 barrels of diesel fuel) is the state of authorized reasonable average fuel oil inventory for the forecast AER of period. The state of the state o

8. Underlift payments of \$46,885,144 should be allowed for it and recovery through ECAC over a two-year period, pending further review of the reasonableness of such costs. Stor of the reasonableness of such costs.

9. Fuel oil sale losses for the forecast period should be recovered, to the extent reasonable, through ECAC. It is reasonable at this time to estimate no such losses for the forecast period.

11. The adopted AER decrease is 0.172¢/kWh and will result in 9000 decreased annual revenues of \$16.7 million.

12. Although SDG&E's operations and expenses for the period July 1, 1981 through June 30, 1982 were generally reasonable, it is even reasonable to reduce fuel oil sale losses by the projected reduction in excess fuel oil carrying costs recovered through AER for the period April through October 1982 to provide for a sharing of the burden related to excess fuel supplies as intended in D.82-04-115?

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13. While the AER normally includes projected fuel oil sale losses and gains as well as the carrying costs of reasonable fuel oil in inventory, the Commission in D-82-04-115 excluded fuel oil sales from AER in order not to prejudice SDG&E's fuel oil negotiations with resoro and HIRI.

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14. It is reasonable to reduce the ECAC balancing account by Esses \$28,600 plus applicable interest for the cost of a pump which is not an expenditure properly recoverable through ECAC. 200,303,

15. Our adopted estimated ECAC undercollection as offer to elerred October 31, 1982 is \$2,302,000 - Ilo Loui esereve elécaceser bestrodres

16. The ECAC balancing rate of 0.029¢/kWh based on a 12-month amortization period to provide rate stability is reasonable.

promote rate stability. The ECAC offset rate is based on a 12-month forecast to evoce promote rate stability. The ECAC offset rate of 0.165¢/kWh is a back to reasonable bears promote rate bears promote are not seen lie lest. .8

19. For ERAM rate adjustment filings it is reasonable to use other actual figures to the extent available and estimated figures where necessary as long as they are corrected to actual through the balancing account.

20. The staff ERAM computation follows the above interpretation more closely than SDG&E's and, it is reasonable to adopt the staff's computation of the ERAM rate for the purposes of this proceeding.

21. The adopted ERAM rate based on an estimated undercollection of \$13,126,000 as of October 31, 1982 is reasonable sponde ling borred

22. It is reasonable to include in ERAM the revenue differences arising from unforecasted variances in consumption at various rate levels.

23. SDG&E can correct its so-called booking lag problem by recognizing unbilled revenues for services rendered in December as a part of 1982 calendar year revenues if it so chooses.

24. ERAM is not intended to allow a utility to make up a booking lag by collection of additional revenues for services rendered in a prior calendar year at prior year rates but recorded as current year revenues.

25. Test year revenues relate to revenues for services rendered during a test year period.

26. It is reasonable for SDG&E to revise its tariff Cal PUC Sheet No. 4222E, Preliminary Statement 15(e) Two-Way Balancing Account subpara (2)(a) to read: "The Recorded Base Rate Revenue for service rendered each month, plus,...".

27. The rates and charges authorized by this decision are just and reasonable; the present rates and charges, insofar as they differ from those prescribed by this decision, are for the future unjust and unreasonable.

28. In view of the delay beyond the revision date, the effective date of this order should be today.

Conclusion of Law

SDG&E should be authorized to change its rates as set forth in the following order; those rates are just and reasonable.

<u>order</u>

IT IS ORDERED that:

1. On or after the effective date of this order, San Diego Gas & Electric Company (SDG&E) is authorized to file with the Commission, in conformity with the provisions of General Order 96-A, the revised tariff schedules reflecting the following rates:

	·	t/kWh	
	ERAM Rate	AER <u>Rate</u>	ECAC Rate
Domestic Lifeline	0-134	0-267	4-716
Domestic Nonlifeline	0.134	0.267	8.371
Nondomestic	0-134	0.267	7.020

Streetlighting rates should be revised accordingly. The revised tariff schedules shall be effective on January 1, 1983 and shall apply only to service rendered on or after their effective date. The rates will be authorized subject to refund pending our further investigation of the underlift charges as discussed in the body of this decision.

2. SDG&E shall calculate the ERAM over- or undercollections by matching base rate revenues for services rendered in each month with the authorized base rate revenues for the month and revise its Cal PUC Sheet No. 4222E as shown in Finding of Fact 26.

This order is effective today.

Dated December 13, 1982, at San Francisco, California.

I will file a dissent.

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

I CERTIFY THAT THIS WAS APPROVED DY TOE COMMISSIONERS oph E. Bodovitz . 44

A.82-08-14 D.82-12-056

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RICHARD D. GRAVELLE, Commissioner, Dissenting:

Today's decision brings home to San Diego ratepayers the immentable product of a lack of foresight by SDG&E, a lack of oversight by this Commission, including this Commissioner, and a lack of nerve on the part of both SDG&E and the Commission. Therefore I must respectfully dissent.

There is no need here to repeat the dissent which I filed in D.82-09-023, on September 8, 1982, related to the Commission's decision to rescind the order to show cause issued in D.82-04-073. In sum, the dissent stated that the Commission should have ordered SDG&E to suspend all takes under the force majoure clause of SDG&E's fuel oil contract with Tesoro. The dissent postulated an outside limit of additional damages, over and above the estimated \$35 million in underlift payments, of approximately \$17 to \$20 million. The dissent argued that this was a prudent risk, as well as a means of serving notice that this Commission would no longer tolerate the burdens on ratepayers of long term fuel oil contracts. Ordering San Diego to suspend its oil takes under the Tesoro contract would have been a means for remedying the disastrous fuels management policies which SDG&# has followed. These policies are all discussed in D.82-04-115, at pages 13-21, where the staff's review of SDG&E's fuel operations is summarized. The staff's review documented the degree to which SDG&E has consistently underestimated natural gas supplies, over used oil (its most expensive fuel), and failed to act vigorously in reducing the amounts of oil it was obligated to take under its long.term contracts. As we stated in 0.82-04-115, "It appears that SDG&E has been unimaginative as well as unrealistic in formulating and implementing its oil supply and gas forecasting policies." The understatement in that conclusion is unfortunately no laughing matter.

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Given SDG&E's lack of prudent management, what should we as a Commission have done? We took one right step in April, in issuing to SDG&E an order to show cause why it should not be ordered to cease taking Tesoro oil under the force majeure provision which excused SDG&E from the contract if a governmental agency requested SDG&E to cease taking eil. Unfortunately, however, when push came to proverbial shove, the Commission's will fultered. The reasons for rescinding the order to show cause had to do with a fear of the consequences for SDG&E if it lost a lawsuit to Tesoro, namely, the additional estimated (at that time) \$17 to \$20 million worth of liability over and above the underlift payments provided for in the contract modification noted in D.82-09-023. One reason the Commission feared SDG&E's lesing that litigation was that SDG&E had informed the Commission of the existence of the force majoure provision. It was feared that Tesoro might be able to establish that SDG&E had induced the Commission to order a suspension in oil takes. In my view, that fear was groundless, but it was sufficiently large in the minds of the majority of Commissioners, to help persuade them not to order a suspension of the Wesoro oil takes. Had our oversight of SDG&E been more forceful and effective from the start. we would have known of the force majeure provision in SDG&E's contract and would have long since brought it into play. Regretfully I must confess my own error in not acting earlier, but the opportunity remained in September 1982.

More importantly, had our oversight been more decisive, we would have neized the historic, priceless opportunity to order SDG&E to cease taking oil from Tesoro, instead of rescinding the order to show cause. Unfortunately, because the force majeure provision has now been eliminated from the contract, the opportunity no longer exists. Indeed, the fact that Tesoro absolutely insisted that the force majeure provision be removed from the contract provides us with insight into how greatly Tesoro feared the provision might be used effectively in litigation.

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What do we know now that we did not know in September of this year? We know that SDG&E itself forecast a possible loss per barrel for Tesoro, if Tesoro had to sell the underlifted oil on the open market, of only \$7.50, i.e., only \$.95 per barrel more than the underlift fee. The Commission was never informed that this was SDG&E's forecast. Thus, SDG&E's maximum exposure if it lost the litigation to Tesoro was only \$5.4 million over and above the underlift fee (12,500 bb1,/day x 456 days³⁷ x \$.95/bb1, = \$5.415 million).

The majority's opinion acknowledges that the total underlift payments, including transportation underlifts, to the end of 1983 will total some \$46 million. For fear of losing an additional \$5.4 million, the majority was unwilling to risk litigation to avoid paying \$46 million. The disparity is immense and in my view fully justified risking ordering SDG&E to suspend all oil takes under the Tesoro contract. But, as matters stand, the opportunity is now lost.

I recognize that the majority do keep open the issue of the reasonableness of the underlift payments. It may be that such underlifts will be disallowed in the future. Such action, while proper, can only hurt SDG&E, not the oil companies, which have indicated (as I stated in my dissent in D.82+09-023)-their complete willingness to suspend deliveries under the force majoure contract when it suited them to do so. We know that HIRI suspended deliveries to Tesoro during the Iranian crisis and I have no doubt Tesoro would have done so as well if a governmental agency had requested it to do so. Thus I felt no computetion about using the force majoure clause to benefit SDG&E's ratepayers.

The upshot is that today SDG&E's ratepayers begin paying the \$46 million costs, over a two year amortization period, of underlift payments SDG&E should not be making. II SDG&E's ratepayers are enraged at this fact. It should come as no surprise to us or to the utility.

Richard D. Gravelle, Commissioner

December 13, 1982 San Francisco, Galifornia - 3-

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SDG&E argues that underlift fees should be given ECAC treatment and be subject to a reasonableness review. If the Tesoro underlift payments are given AER treatment, and should SDG&E take advantage of its option to purchase oil up to 6,000 barrels of LSTO per day, on 45 days' notice, the \$6.55 underlift fee will be reduced barrel-for-barrel. City expresses concern that if ECAC treatment is not provided, it might prove to be of economic advantage to SDG&E to buy oil from Tesoro and reduce underlift payments when this action would not be to the ratepayers' advantage.

VI. Discussion of ECAC and AER Issues

A. ECAC Balancing Rate

We will adopt the stall accountant's recommendation to disallow expenditures relating to the 125 horsepower pump from the ECAC balancing account as an item not properly chargeable to ECAC even though such expenditure may be prudent and advantageous to the ratepavers. We will not adopt the staff's recommendation to disallow the \$189,532 payment to Chevron for failure of SDG&E to provide Chevron with 30 days' advance notice of the sale of HIRI oil to Tosco. We are convinced that immediate action was required to take advantage of the opportunity to sell the LSFO and moreover the sale was beneficial to the electric ratepayers even after the payment made to Chevron.

We will also not adopt the staff's recommendation to disallow rate recovery of the October 1982 Tesoro and Chevron underlift charges in rates as an unfair duplicate recovery of previously allowed costs. In D.82-09-023 we noted that underlift charges pursuant to the Suspension Agreement would replace fuel oil sale losses as "the primary cost of SDG&E's efforts to reduce inventory..., a cost which was not reasonably foreseeable when the AER rate was set earlier in 1982". In D.82-04-115 we had permitted continued ECAC balancing account treatment of fuel oil sale losses, and so in D.82-09-023 we allowed similar treatment of initial underlift charges resulting from the Suspension Agreement, subject to the same scrutiny

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to be applied to all SDG&E costs pursuant to that agreement?

No party to this proceeding has questioned the reasonableness of the Tesoro and Chevron underlift charges. Staff attests to a belief "that the provisions of the suspension agreement are reasonable in light of the savings that will accrue to the benefit of SDG&E gas and electric ratepayers". The evidence suggests that SDG&E bargained vigorously with Tesoro in arriving at the \$6.55 per barrel underlift charge.

We will authorize SDGAE to record the October 1982 underlift charges as well as future underlift charges pursuant to the Suspension Agreement in the ECAC balancing account, subject to continuing reasonableness review. We are persuaded less by SDGAE's reasoning that ECAC treatment comports with the variable and unpredictable nature of such expenses than by the utility's warning, borne out by its recent practice, that adoption of firm estimates can create perverse incentives. We note the warnings of San Diego and staff counsel that guaranteed recovery through AER of estimated Tesoro underlift charges might induce SDGAE to buy oil and avoid such charges in contradiction to its ratepayers' interests.

However, we find it would unduly builden present ratepayers for us to authorize the immediate pass through of the substantial underlift charges which SDG&E is now obligated to pay. Over the period October 1, 1982 to December 31, 1983 these underlift payments are projected as \$45,064,000 to Tesoro plus \$1,821,144 to Chevron, for a total projected cost of \$46,885,144. We will authorize the recovery of these costs on an amortized basis over a two-year period beginning January 1, 1983, with the undercollected amount to be held in the ECAC balancing account and to accrue interest at the normal rate. Therefore, the annualized underlift expense to be recognized for recovery through ECAC at this time will be one-half of \$46,885,144, or \$23,442,572. If, in future ECAC proceedings, it appears that any portion of the projected underlift charges will not or should not be incurred, then the undercollected balance will be adjusted accordingly. A.82-08-14 js

In our recent D.32-09-023 terminating the order to show cause as to suspension of oil deliveries to SDG&E, we directed the staff to review the Suspension Agreement, with special focus on the reasonableness of the underlift charges, in this annual ECAC review. Hearings in this proceeding began within two weeks of our issuance of D.82-09-023, leaving staff little time to investigate this issue. As a consequence, the record is inadequate to determine at this time the reasonableness of the \$6.55 per barrel underlift charge. Therefore, we are making the underlift payments recovered through ECAC subject to refund, pending further reasonableness review. We especially note, and direct to our staff's attention for further scrutiny, the following facts:

SDG&E now states that during the course of its negotiations, it perceived Tesoro's possible loss in the event SDG&E had refused to take or pay for oil deliveries to have been \$7.50 per barrel. Taking into account Tesoro's duty to mitAgate its damages, if any, if SDG&E had suspended all deliveries from Tesoro, SDG&E might have reasoned that its maximum exposure in litigation was \$7.50 times the number of barrels remaining for delivery under the contract. SDG&E chose to accept--in place of the uncertainties of litigation-the certainty of a \$6.55 per barrel underlift\fee, plus other underlift fees, totalling some \$46 million. Its maximum additional exposure in the event of litigation was only \$.95 per barrel, or approximately \$5.4 million over the remaining life of the contract (assuming an obligation of 12,500 bbl./day). SDG&E did not inform us until this proceeding of its estimate of Tesoro's probable loss per barrel. It may have settled for an underlift fee too close to its maximum damages; i.e., it may not have negotiated with sufficient vigor, tenacity and imagination.

We note further that Tesoro was able to arrange, almost immediately, a replacement buyer, Amerada Hess (Amerada), for the underlifted oil. Tesoro refused in our hearings to disclose the precise terms of the sale. The staff brief indicates the underlifted volumes, some 13,000 barrels per day, plus or minus 10%, are to be delivered to Amerada at its St. Croix refinery. The contract has a

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continuous everyreening provision enforceable at Amerada's sole option. The price--said by Tesoro to be at a discount from the New York harbor Exxon corporate price of No. 6 fuel oil (approximately \$32.28 when the staff brief was submitted) -- may or may not include transportation in Tesoro's own ships (and associated transportation charges payable to Tesoro). Tesoro's witness said this sale, together with the SDG&E underlift payments, would not leave it "completely whole' in relationship to the former SDG&E contract, but without knowing all the terms of the Amerada contract, we are uncertain whether this is so. This is important because knowledge of the exact terms of the Amerada sale may help up judge the reasonableness of SDG&E's estimation that Tesoro would face a loss of \$7.50 per barrel if it sold the underlifted oil to a third party. It is also important because it would appear that SDG&E--which had sold oil to Amerada in 1981 and which knew Tesoro had sold oil to Amerada--would reasonably have considered the possibility that Tesoro would sell the underlifted oil to Amerada, as was done within two days following our D.82-09-023. Finally, it is important because Tesoro may have requested SDG&E to rely on its representation that no buyer was available or likely soon to be found by Tesoro.

We need to know much more about: how SDG&E's negotiations with Tesoro actually proceeded; how SDG&E arrived at its estimate of a \$7.50 per barrel loss for Tesoro; why SDG&E did not disclose this estimate to us prior to D.82-09-023; what terms Tesoro negotiated in its sale agreement with Amerada; and what efforts SDG&E made to locate buyers for Tesoro. Without such knowledge we cannot assent to the reasonableness of the underlift fee.

We direct staff to begin at once a further investigation of the reasonableness of the \$6.55 underlift figure. We expect it to use all appropriate means of discovery, including depositions and subpoenas if necessary. We will examine this issue again in SDGSE's next reasonableness review. We stress that we have no preconceived opinions and have not decided upon any disallowance of the underlift fees. We simply need more information before we could finally approve such fees, in view of our obligation to ensure that no imprudently incurred cost is passed on in rates.

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We concur with the staff accountant's recommendation that a portion of the fuel oil sale losses incurred by SDG&E in the review period be disullowed in view of the fact that SDG&E did not incur the level of carrying costs related to excess fuel oil inventory forecast in the development of the last AER in D.82-04-115. This resulted from a combination of higher fuel oil sales and the burning of fuel oil while rejecting natural gas.

If fuel oil sales had been included in AER in D.82-04-115, as the AER was originally intended, there would be a compensating factor between the higher than estimated fuel oil sale losses being offset by the lower than anticipated inventory level. However, since SDG&E was in the midst of negotiations with its suppliers, we allowed ECAC treatment of fuel oil sale losses in order not to prejudice such negotiations. We believe it would be unreasonable for SDG&E to recover all fuel oil sale losses, on the one hand, and reap an undue benefit in the AER on inventory carrying costs. We disagree with the staff witness, however, as to the appropriate adjustment. The limit of the adjustment to recoverable fuel oil sales losses will be the \$6,880,000 AER allowance for excess fuel oil inventory. We will, therefore, adjust fuel oil sale losses by \$6,880,000 plus applicable interest.

We will adopt a 12-month amortization period for the ECAC undercollections since it will help stabilize rates and was not opposed by any of the parties. Tables 2 and 2a show the calculation of our adopted ECAC balancing rate.

We will continue to provide for recovery of fuel oil sale losses through ECAC, in accordance with SDG&E's recommendation and for the same reason as noted above with respect to underlift charges. SDG&E's asserts that its contract renegotiations have brought its fuel oil supplies in line with its requirements. In D.82-04-115 we placed SDG&E on notice that any request in this proceeding for allowance of fuel oil sale losses would be "subjected to very rigorous Commission scrutiny". SDG&E's showing that further oil sale losses are to be expected in view of unanticipated availability of low-cost purchased power was offered late in the proceeding and staff was unable to analyze it critically. Therefore, we will not forecast any oil sale losses in calculating the ECAC offset rate at this time.

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Table 2

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SAN DIEGO GAS & ELECTRIC COMPANY

Calculation of Average ECAC Rate Change

Line No.	Item	<u>Units</u>	Amount
l	Adjusted Estimated Balance of ECAC Account as of Nov. 1, 1982 (from Table 2a)	MS	2,830 - 2,302
2	12-Month Sales Applicable to ECAC Adjustment Rate	M2kWb	9,711.38
3	ECAC Balancing Rate	¢/kwh	.024
4	ECAC Balancing Rate Adjusted for Franchise & Uncoll. X (1.0118)	¢/kWh	.02 4
5	Present Balancing Rate	c/kWh	(.658)
6	Balancing Rate Increase (L.4 - L.5)	¢/kWh	.68 7
7	Adopted Uniform Increase in Offset Rate (Table 3)	¢/kwh	.165 -131
8	Adopted Uniform Increase in ECAC Adj. Rate (L.6 + L.7)	¢/kWh	_852_ +813

(Red Figure)

the four-month period as being consistent with the intent of D.92496 in Order Instituting Investigation (OII) 56. All parties have no objection to the 12-month amortization of the ECAC balancing rate.

2. SDG&E includes underlift costs in its calculation of the ECAC offset rate while the staff excludes underlifts from ECAC and recommends AER treatment of underlifts. the FOB also includes 70% of the carrying costs of excess fuel oil in inventory in the ECAC offset rate. SDG&E includes the entire carrying cost of fuel oil inventory in AER. The Revenue Requirements Division recommends AER treatment for the carrying costs of authorized fuel oil inventory with no rate recovery on the carrying costs of excess fuel oil inventory as its primary recommendation and a 40% rate recovery of excess fuel oil carrying costs as an alternate proposal.

We have already resolved the issue of underlift costs by providing for their recovery, to the extent found reasonable through ECAC. As for oil inventory, we believe SDG&E's proposal places too much of the burden of excess fuel oil on the ratepayers. On the other hand, we believe the Revenue Requirements Division's primary proposal of disallowing any rate recovery of the carrying costs of excess fuel oil inventory is overly severe. We believe the FOB staff's proposed treatment provides a reasonable balancing of ratepayers' and shareholders' interest while also providing incentives for SDG&E to prudently manage its fuel oil inventory and energy management practices. Table 3 shows the computation of our adopted ECAC offset rate.

In developing our ECAC offset rate we will adopt the 12-month forecast period recommended by SDGSE and FOB staff, for the purpose of promoting rate stability. Table 3a shows the derivation of the AER and ECAC component of fuel oil in inventory. •

Table 3

SAN DIEGO GAS & ELECTRIC COMPANY

Adopted ECAC Offset Rate Change Based On Estimated Twelve-Month Period Beginning November 1, 1982

Line No.		Net System Input M2kWhr	Estimated Price	<u>×\$</u>
l	Purchased Energy	3,113.8	4.618119¢/kWn	143,799.0
2	Nuclear Generation	√ 541.4	0.830754¢/kWh	4,497-7
3	Natural Gas	5,279.9	550.00¢M2Btu	319,682.6
4	Diesel Oil	0-7	724.53¢M2Btu	76-8
5	Residual Oil	2,441.6	676.32¢M2Btu	162,982.3
6	Subtotal Fuel and Purch. Energy	11,377.4		631,038.4
7	Plus New Albion Resources Company Fuel Service Charge			1,749.0
8	Plus Variable Wheeling Exp.		\mathbf{i}	942.5
9	Less Revenue from DWR			546-7
10	Total Expenses Subject to 2% Calculation			633,183.2
נו	Less 2% of L.10		N.	12,663.7
12	Add 70% of Carry Cost of Excess Oil Inventory (From Table 3a)			4,524.2
13	Plus Underlift Costs		\backslash	23,442.6
14	Plus Carrying Cost Changing Value of Fuel Oil in AER			26.9
25	Total		648,513.2	-61-5-276-6
16	Allocated Amt. for ECAC Recovery (L.15 x 0.990549)		642,384.)	639,111.3
		(Table 3 cont	tinued)	

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Table 3 (Cont.)

- 17 Less ECAC Energy Cost Offset from Current Rates
- 18 Allocated Current Cost Less Current ECAC Offset Rate
- 19 Twelve-Month Estimated Sales
- 20 ECAC Offset Rate Increase ¢/kWh (L.18 / L.19)
- 21 ECAC Offset Rate Increase Adj. for Franch. and Uncoll. ¢/kWhr (L.20 x 1.0118)

626,579.6 15,804.5

12,531.7

9,711.38

M2kWh

.163

,165 ,,131

C. AER

The FOB staff recommends the adoption of its average inventory level of 1,254,000 barrels of LSFO and 251,000 barrels of diesel fuel. This recommendation is supported by the Revenue Requirements Division staff accountants. SDG&E claims that the staff inventory level is too low and exposes the ratepayers to additional risks. SDG&E argues that its proposed inventory level of 2,169,000 barrels of LSFO and 251,000 barrels of diesel fuel is based on sound reasoning and the use of a probabilistic envelope. SDG&E contends that the staff average inventory level would pierce the minimum inventory level which should be inviolable. We will adopt the staff inventory level as reasonable. Our adopted authorized inventory level is an average inventory level and exceeds the average minimum inventory requirements. Our adopted authorized inventory level will be used for computing inventory carrying costs to be included in the AER.

Our adopted AER will include fuel service charges, variable wheeling expenses, and revenue from DWR in arriving at the 2% fuel cost computation allowed for AER, consistent with the computation made in D.82-04-115. Table 4 shows the calculation of our adopted AER for the AER period, November 1, 1982 through October 31, 1983. It should be noted that our estimated price for natural gas is lower than the 557.49 ¢/M²Btu proposed by the staff witness. Our adopted estimate of 550.00 ¢/M⁴Btu is identical to the GN-5 rate coverning sales by Southern California Gas Company (SoCal) for electric generation, as determined in D.82-12-047, issued last week. The evidence upon which that decision was based indicated a serious risk of fuel switching by GN-5 customers, which will significantly limit our ability to pass further gas cost increases on to these customers over this ECAC forecast period. Inasmuch as our estimate of SDG&E's cost of gas for electric generation is dustomarily tied to SoCal's GN-5 rate, the 550.00¢ price will be used \in this proceeding, thus reducing the revenue requirement by \$900,000.

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Table 4

SAN DIEGO GAS & ELECTRIC COMPANY

Derivation of Revenue Requirements Associated With the Adopted Annual Energy Rate

Line No.		Net System Input <u>M2kWhr</u>	Estimated Price	<u>M\$</u>
l	Purchased Energy	3,133.8	4.618119¢/kWh	143,799.0
2	Nuclear Generation	541.4	0.830754¢/kWh	4,497.7
3	Natural Gas	5,279-9	550.00 eM2Btu*	319,682.6
4	Diesel Oil	0.7	728-30 ¢M2Btu	77-2
5	Residual Oil	2,441.6	683.2 ¢/M2Btu	164,640.3
6	Subtotal Fuel and Purch. Energy	11,377.4		632,696.8
7	Plus New Albion Resources Company Fuel Service Charge			1,749.0
8	Plus Variable Wheeling Exp.	\mathbf{A}		942-5
9	Less Revenue from DWR			546-7
10	Total Expenses Subject to 2% Calculation			634,841.6
11	2% of L.10	\backslash		12,696.8
12	Carrying Costs of Authorized Fuel Oil in Inventory (Table 3a)			13,239.0
13	Subtotal			25,935-8
14	Allocated Amount for AER Recovery (L.13 x 0.990599)			25,692.0
	(1	able 4 conti	mued)	

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Table 4 (Cont.)

15	Franchise fees and Uncollectible Requirements at 1.18%	
16	Adjusted Revenue Req. (L.14 + L.15)	25,995-2
17	12-Month Estimated Sales (M2kWh)	9,734-59 <u>¢/kWh</u>
18	Adopted AER (L-16 / L-17)	- 267
19	Present AER (D.82-04-115)	- 439
20	Proposed Uniform Increase in AER (¢/kWh)	(.172)

(Red Figure)

Findings of Fact

1. By A.82-08-14 SDG&E requests authority to make changes in its ECAC billing factor, its AER, and to establish an ERAM rate.

2. Although AER typically includes 2% of fuel and energy costs, gains and losses from sale of fuel oil, underlift payments, and the carrying costs of fuel oil in inventory, the AER adopted in D.32-04-115 permitted gains and losses from sale of fuel oil to be given ECAC treatment.

3. The AER forecast period for this application is from November 1, 1982 through October 31, 1983.

4. SDG&E's estimate of the electric sales during the forecast period for purposes of calculating the AER is reasonable and is adopted.

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Item	ALJ Origi Rale Increase c/kWh	ALJ Original Draft de Increase Revenue Increase c/ KWh M #	Alterna Rak Increase ¢/kWh	Alternate Draft nerease Revenue Inerene / kWh M\$	Difference Alkmuke-ALJ M#
Base	0	0	0	0	0
ERAM	,134 664	13,044 64,483	.134	13,044 82,741	18,258
AER	.249	24,239	(211:)	(16,743)	(40,982)
Total	1, 047	101,766	.775	74'04Z	(22,724)
		Red	Figure)		
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