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Decision No. 88225 DEC 13 1977

ORIGINAL

BEFORE THE PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

In the Matter of the Application of SAN DIEGO GAS & ELECTRIC COMPANY for Authority to Increase its Electric Rates and Charges in Accordance with the Energy Cost Adjustment Clause in its Electric Tariff Schedules.	Application No. 57497 (Filed August 4, 1977)

Jeffrey Lee Guttero, Attorney at Law, for San Diego Gas & Electric Company, applicant.
John W. Witt, City Attorney, by William S. Shaffran, Deputy City Attorney, and Chett T. Chew, for City of San Diego, interested party.
Thomas F. Grant, Attorney at Law, Thomas Lew, and Mahendra Jhala, for the Commission staff.

O P I N I O N

San Diego Gas & Electric Company (SDG&E) seeks authority to increase effective September 1, 1977, its electric rates and charges under the Energy Cost Adjustment Clause (ECAC) included in SDG&E's electric tariff schedules. SDG&E states that the proposed rates would increase its electric revenues by an estimated 8.46 percent or $17.4 million for the six-month period beginning September 1, 1977. The increase is intended to offset SDG&E's energy costs as calculated under the ECAC procedure and to amortize the amount in the Energy Cost Adjustment Account (ECAA) as of June 30, 1977, representing SDG&E's actual energy costs which have not yet been recovered through rates charged its customers.

Applicant proposes to allocate the increase to nonlifeline service only by the uniform application of a 0.514 cents per Kwh increase. This will increase the ECAC rate to 2.916 cents per Kwh for nonlifeline sales. Applicant proposes no increase in lifeline rates as SDG&E's average system electric rate including this increase will not exceed its average system electric rate effective January 1, 1976 by 25 percent.

The primary elements contributing to the change in the ECAC rate are the increase in percent of electric requirements being produced by diesel or residual oil as opposed to purchased power, or produced by nuclear fuel or natural gas; the increase in the average price of purchased power and of all generation fuels; and finally the reduction in the undercollect position in the ECAA requiring a lower balancing rate. SDG&E alleges that the offset rate adjustment requested in this application will simply offset further increases in energy costs and will not affect SDG&E's rate of return but will tend to avoid a larger accumulation of undercollection balance in SDG&E's ECAA.

Background

On April 27, 1976, the Commission issued Decision No. 85731 in Case No. 9886, an investigation into fuel cost adjustment procedures, ordering each respondent utility, including SDG&E, to file an ECAC conforming to the elements set forth in the decision. On September 7, 1976, SDG&E filed Advice Letter No. 413-E requesting authorization to place such ECAC in effect along with a Fuel Collection Balance Adjustment (FCBA) provision and a Residual Oil Sales Adjustment (ROSA) provision. By Resolution No. E-1599 dated September 28, 1976, the Commission authorized SDG&E's filing

with modifications to become effective September 1, 1976. Such modifications were filed by Advice Letter No. 413-E Supplement dated September 30, 1976. Pursuant to the Commission's Decision No. 86484 dated October 13, 1976, SDG&E filed Advice Letter No. 420-E with the Commission on November 17, 1976 to provide for monthly interest charges to accrue to said account.

In Decision No. 87639 in Application No. 55627, dated July 19, 1977, the Commission established ECAC rates for SDG&E concurrently with the basic electric department rates authorized by the decision. Decision No. 87639 also instructed SDG&E to include the FCBA and the unamortized ROSA balance as of July 25, 1977 in its ECAA. In accordance with Section 9(c) of SDG&E's Preliminary Statement revision dates for ECAC are to be March 1 and September 1, of each year as authorized by Decision No. 87639. This is the first revision to the ECAC rate since Decision No. 87639.

Public hearings in this application were held in Chula Vista on October 4, 5, and 6, 1977 before Administrative Law Judge Kenji Tomita. The matter was submitted on October 6, 1977 subject to receipt of late-filed Exhibit 5. Such exhibit was received on October 13, 1977 and the matter is now ready for decision.

Alan G. Strachan, director of Rates and Valuations, George Reiss, fuel buyer, and Harry B. Stoehr, engineering supervisor, testified for SDG&E; and Kenneth K. Louie, financial examiner and Mahendra Jhala, senior utilities engineer in the Electric Branch, testified for the Commission staff. Mr. Strachan's testimony generally related to the development of the ECAC billing factor, whereas, Mr. Reiss testified to SDG&E's fuel procurement practices and policies and Mr. Stoehr's testimony covered the subject of SDG&E's efforts to reduce heat rate and improve power plant efficiency.

The Issues

The issues presented by this application are as follows:

1. Is the ECAC billing factor developed by applicant reasonable?
2. Should the losses from oil sales be included in the ECAC computation and were they prudently incurred?
3. Are SDG&E's oil procurement policies reasonable or should they be modified?
4. Should the unit cost for natural gas be reduced for ECAC purposes from the approved tariff rates?

Commission Staff Position

The Commission staff reviewed applicant's records, workpapers, and reports relating to the development of ECAC billing factor and took no exception to the new ECAC rate of 2.916 cents per Kwh. The staff financial examiner did testify that the proper tax treatment for gains and losses from fuel oil sales were currently being studied and reserved the right to make appropriate adjustments if necessary in the next ECAC proceeding. The staff engineer, while concurring that the fuel oil losses included in the current ECAC computation were prudently incurred, nevertheless recommended that SDG&E's fuel oil procurement policies be scrutinized and that an independent consultant be hired to review such policies including the questions of reasonable fuel inventory levels, storage facilities, and exchange agreements with other end-users. The staff engineer also recommended that SDG&E continue to monitor system heat rates and incorporate fuel saving measures which will optimize system generation.

The staff further stated that it will recommend disallowance of oil sale losses in future proceedings unless SDG&E takes appropriate measures to correct its excess fuel inventory situation which results in fuel oil sale losses.

City of San Diego's Position

The city of San Diego (City) took the position that fuel oil sale losses should not be allowed in computing the ECAC billing factor because the preliminary statement did not provide for such treatment, the losses were due to managerial imprudence, and allowance of such losses would constitute retroactive ratemaking. The City further contended that the price paid for natural gas by SDG&E's electric department is unreasonable and should be adjusted for ratemaking purposes.

The City requested that this matter be submitted after receipt of written briefs as it alleged that there were many controversial issues and that transcripts were not immediately available. The request was denied by the Administrative Law Judge who instead requested closing statements from the parties prior to submission on the last day of hearings on October 6, 1977.

The City then advised the presiding officer that it was filing a petition for a proposed report of the Administrative Law Judge. Such petition was filed with the Commission on October 7, 1977 with an objection to such petition filed by SDG&E on October 11, 1977. The City's request for a proposed report is denied.

Fuel Oil Sale Losses

Table I shows details of SDG&E's fuel oil sale transactions for the record period July 1, 1976 through June 30, 1977 resulting in a net loss of $4,733,650. There were twelve residual fuel oil sales involving 3,271,613 barrels of oil and producing a loss of $5,249,670 which was offset by six diesel fuel oil sales involving 731,587 barrels and producing a gain of $516,020 for a net loss from combined residual and diesel fuel oil sales of $4,733,650.

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TABLE 1

FUEL OIL SALES
July 1, 1976 - June 30, 1977

	Date	Company	Quantity (bbl.)	Profit/(Loss)
Residual Fuel Oil	7/76	LSFO Company	50,329	$ (36,846)
	9/76	Tesoro	442,667	(900,804)
	10/76	Tampimex #1	328,321	(921,709)
	10/76	Tampimex #2	256,457	(703,239)
	11/76	Holland Oil	230,026	(597,725)
	12/76	Standard Oil of California	750,000	(51,887)
	1/77	Moore-McCormack Energy #1	301,034	(706,637)
	1/77	Moore-McCormack Energy #2	209,539	(427,213)
	1/77	Moore-McCormack Energy #3	184,675	(364,625)
	2/77	Moore-McCormack Energy #4	233,517	(584,829)
	2/77	Exxon, USA	175,048	67,924
	2/77	Amorient Petroleum	110,000	(22,080)
		Subtotal Residual	3,271,613	(5,249,670)
Diesel Fuel Oil	7/76	Moore-McCormack Energy	103,927	(5,894)
	12/76	Waterfront Services, Inc.	2,003	204
	12/76	Waterfront Services, Inc.	2,992	299
	1/77	Moore-McCormack Energy #1	398,279	297,467
	2/77	Moore-McCormack Energy #2	149,486	132,396
	2/77	Moore-McCormack Energy	74,900	91,548
		Subtotal Diesel	731,587	516,020
		Total	4,003,200	$(4,733,650)

Based on the Commission's decision in Application No. 55506, in which the Commission passed on to customers the gains from previous fuel oil sales and also Section 9(h)(3) of the Preliminary Statement, the staff agreed with SDG&E that fuel oil losses incurred in the record period should be included in the computation of the ECAC billing factor. While the staff concurred that the fuel oil sale losses were prudently incurred in the record period, it expressed concern with SDG&E's fuel procurement policies and recommended that SDG&E hire an independent consultant to appraise SDG&E's fuel procurement policies and practices.

Although the Commission does not challenge the validity of including prudently incurred fuel oil sale losses in the ECAC billing factor computation, we do have reservations regarding one particular transaction: the intended fuel blending.

The record shows that SDG&E entered into an agreement with Tesoro Petroleum whereby .3 percent sulphur fuel oil and 1 percent sulphur fuel oil would be blended in SDG&E facilities to produce .5 percent sulphur fuel oil, to be sold at a profit. The blending did not occur, because of a surplus of oil. SDG&E's share of the profit would have reduced fuel costs for its ratepayers. Despite this worthy purpose we must express opposition to speculative practices on the part of a utility and, had this transaction been consummated, we would have disallowed any loss resulting therefrom. We are interested in the possible use of blending to reduce SDG&E's own fuel costs and expect to see this developed in the next ECAC proceeding, in addition to a showing justifying its procurement policies and practices, particularly in the areas of proper inventory levels, additional storage facilities, and oil exchange agreements with other end-users. We think that staff's recommendation of a consultant is reasonable and would enhance the record.

Natural Gas Price

The City contended that the price paid by SDG&E's electric department is unreasonable and should be adjusted for ratemaking purposes. The City recommended that the unit price of natural gas

used in the ECAC computation should be the supplier's commodity cost plus ten cents per Mcf. We see no justification for adopting the City's recommendation in this matter as the costs used by SDG&E are the last rates approved by this Commission for gas sales to SDG&E's electric department. Further we expect SDG&E to continue to recognize that gas is a premium fuel for its electric department, regardless of variations in oil prices. The reasonableness of rates charged to the electric department should be more properly directed to a gas rate proceeding and not an electric department rate proceeding. The rate adopted by the Commission in a gas rate proceeding is conclusively presumed reasonable for ECAC purposes.

Adopted Rates

We will adopt as reasonable for the purposes of this proceeding an ECAC adjustment rate of 2.916 cent per Kwh to be applied to nonlifeline usage and a corresponding increase for street lighting as shown in Appendix A.

The estimated increase for each class of service is as follows:

Class of Service	Sales 6 Mos. M² Kwh	Revenue Increase Amt.	Revenue Increase Percent
		(Dollars in Thousands)	
Domestic			
Lifeline	916.4	$ -	-%
Nonlifeline	835.1	4,283.2	5.13
General - Regular	1,363.4	7,006.6	9.93
General - Large	1,004.9	5,164.4	12.38
General - Power	85.7	440.3	9.88
Agricultural - Power	60.3	309.9	10.15
Street Lighting	37.7	194.0	7.96
Total	4,303.5	$17,398.4	8.46

Findings

1. The revised ECAC billing factor of 2.916 cents per Kwh for nonlifeline consumption including street lighting is reasonable for the period September 1, 1977 to March 1, 1978.

2. The authorized rates would increase electric department revenues by an estimated 8.46 percent or $17.4 million for the six-month period.

3. It is reasonable to spread the total increase to nonlifeline usage as the system average rate including this increase does not exceed the system average rate as of January 1, 1976 by more than 25 percent.

4. It is reasonable to include fuel oil sale losses for the record period in the ECAC computation.

5. The fuel oil sale loss transactions in the record period was not due to managerial imprudence.

6. SDG&E should review its fuel procurement practices and policies to determine whether such practices and policies are prudent and economical under current market and economic conditions. It should hire an independent consultant to appraise its fuel procurement policies and make a strong record justifying its practices and policies in the next ECAC proceeding.

7. It is reasonable to resolve the tax implications of fuel oil losses in the next ECAC proceeding.

8. It is reasonable to use the authorized tariff rates for sales to the electric department in arriving at the revised ECAC billing factor.

9. There is no need for an Administrative Law Judge's proposed report.

Process

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10. The changes in electric rates and charges authorized by this decision are justified and reasonable; the present rates and charges, insofar as they differ from those prescribed by this decision are, for the future, unjust and unreasonable.

11. The effective date of this order should be the date hereof because there is an immediate need for rate relief. SDG&E is already incurring the costs which are being offset by the rate increase authorized herein.

O R D E R

IT IS ORDERED that:

1. San Diego Gas & Electric Company is authorized to file and place into effect after the effective date of this order, in conformity with the provisions of General Order No. 96-Series, revised tariff schedules to provide for an Energy Cost Adjustment Clause Billing Factor rate of 2.916 cents per Kwh for nonlifeline electric usage and a corresponding increase in street lighting rates as shown in Appendix A.

2. No increase in rates is authorized for lifeline electric usage.

3. Within thirty days after the effective date of this order, San Diego Gas & Electric Company shall file its plan for an independent appraisal of its fuel procurement policies and practices. This independent appraisal, including recommendations for improved policies and practices, shall be presented to the Commission and examined in subsequent ECAC proceedings. San Diego Gas & Electric Company shall, in the next and future ECAC proceedings, develop an extensive record on fuel procurement policies and practices, which shall reflect improvements already initiated as well as plans for further improvement.

Because of the immediate need for rate relief the effective date of this order is the date hereof.

Dated at San Francisco, California, this 13th day of DECEMBER, 1977.

Robert Batinovich
President

William Symons Jr.
Vernon L. Sturgeon
Richard D. Gravelle
Claire T. Dedrick
Commissioners

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APPENDIX A

San Diego Gas & Electric Company
Energy Cost Adjustment Clause

Street Lighting Adjustment Amount Per Month
Related to ECAC Adjustment Rate of $0.02916/Kwhr

Type and Nominal Rating of Lamp	Adjustment Amount Per Month Related to $0.02916/Kwhr		
	All Night	Midnight	1:00 a.m.
Incandescent			
1,000 lumens	$ 0.62	$0.33	$0.38
2,500 lumens	1.85	0.98	1.15
4,000 lumens	2.89	1.53	1.79
6,000 lumens	3.97	2.09	2.45
10,000 lumens	6.08	3.20	3.76
Mercury Vapor			
100 watts	$ 1.18		
175 watts	1.92		
250 watts	2.74		
400 watts	4.65		
700 watts	7.92		
1,000 watts	11.12		
Sodium Vapor, High Pressure			
100 watts	$ 1.37		
150 watts	1.73		
250 watts	3.10		
400 watts	4.72		
1,000 watts	11.41		