

ORIGINAL

Decision No. 89449 OCT 3 1978

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 Rates and Charges for )  
Electric, Gas and Steam Service. )

Application No. 58067  
(Filed May 15, 1978)

(See Appendix A for appearances.)

INTERIM OPINION AND ORDER

On August 24, 1978, the City of San Diego (City) filed a Motion for an Immediate Partial General Rate Reduction in this proceeding until such time as San Diego Gas & Electric Company (SDG&E) establishes a Supply Adjustment Mechanism (SAM) balancing account on the ground that the record shows that SDG&E is currently earning an overall rate of return above that level authorized by the Commission.

City alleges that SDG&E is enjoying huge profits from gas sales to its electric department (G-54 sales) in excess of the quantities estimated by the company and the staff for 1978 and 1979. City further alleges that although the Commission issued Decision No. 88835 in Case No. 10261, requiring the establishment of an SAM balancing account between June 1, 1978 and no later than January 1, 1979, SDG&E has chosen November 1, 1978 as the establishment date of its SAM balancing account. City requests a partial general rate reduction until such time as SAM becomes effective for SDG&E since such windfall profits in the interim period cannot be recovered at a later date.

SDG&E filed a response to City's motion on September 6, 1978. SDG&E requests that the motion be denied for the following reasons:

1. The issue raised by City has been previously resolved by the Commission;
2. City's motion is procedurally defective;
3. City's motion is improperly filed in Application No. 58067; and
4. City's motion fails to acknowledge that ratemaking is prospective in nature.

SDG&E argues that the action requested by City would constitute retroactive ratemaking as City is seeking a reduction of future rates based solely upon the level of past rates of return or one element of operations without further inquiry. It is not necessary to discuss or to decide the retroactive ratemaking issue raised by SDG&E, since we are of the opinion that the staff recommendation constitutes a more reasonable means of resolving the problem of excessive earnings from interdepartmental sales than a rate reduction.

The Commission staff filed a statement of position with respect to City's motion on September 6, 1978. The staff agrees with the City that SDG&E is currently earning in excess of the 9.67 percent rate of return authorized in Decision No. 88697 due to availability of larger than expected quantities of natural gas for interdepartmental sales. The staff recommends that a better solution to the problem of an excessive rate of return would be to order SDG&E to establish immediately an SAM balancing account pursuant to Decision No. 88835, instead of waiting until November 1, 1978. The staff suggests that immediate implementation of the SAM procedure would ensure that the utility does not reap any "windfall" profits from interdepartmental sales and at the same time protect the utility should it suffer a sudden downward fluctuation in gas supply.

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On September 14, 1978, argument was presented on City's motion. SDG&E stated that it chose November 1, 1978 to implement an SAM balancing account because it expected gas supplies to decline in November to the point that there would be little gas available for interdepartmental sales. SDG&E contended that before the Commission directs a date earlier than January 1, 1979 to establish an SAM balancing account, the Commission should have before it a complete view of SDG&E's total company prospective earnings and not rely only on gas sales for the past few months.

The establishment of the balancing account on October 15, 1978 will not cause harm to SDG&E. It may, in fact, be a benefit. What if available gas volumes suddenly declined in October, rather than in November as now estimated by SDG&E? SDG&E would be protected.

SDG&E states that this is the improper proceeding in which to direct the establishment of an SAM balancing account prior to January 1, 1979. However, SDG&E overlooks that SAM was devised as a ratemaking tool with the revenue requirements of gas utilities in mind in view of fluctuating gas availability. It is an ongoing ratemaking mechanism. In our recent Decision No. 89202, Application No. 57636 Southern California Gas Company, we authorized a rate increase conditioned upon the establishment of an SAM balancing account prior to January 1, 1979. All we do by this decision is order the establishment of an SAM balancing account in lieu of a possible rate reduction. In so doing we use SAM as a ratemaking tool in the procedural context of a general rate proceeding (as was done in Decision No. 89202). This approach is reasonable in that any "windfall" profits resulting from SDG&E's realizing a gas margin in excess of that adopted in setting its most recently authorized rates will be retained in the SAM balancing account. Likewise, should delivered gas volumes to SDG&E significantly decline in October, SDG&E would be protected.

SDG&E's response to City's motion alleges that the motion is procedurally defective in that it challenges the reasonableness of a utility's rate, which should be done in a complaint proceeding pursuant to Section 1702 of the Public Utilities Code. That contention overlooks the fact that the issue was raised by a party to a general rate proceeding in which the reasonableness of all applicant's rates have been placed in issue. Ordinarily, we are reluctant to adjust rates before completion of a general rate proceeding; that is why it is more desirable and reasonable to direct the establishment of an SAM balancing account rather than entertain and proceed with a possible rate reduction.

The staff's recommendation would involve only a minor change of timing in the establishment by SDG&E of its SAM balancing account, a requirement already imposed upon SDG&E by Decision No. 88835, dated May 16, 1978, in Case No. 10261. Instead of an effective date of November 1, 1978, as proposed by SDG&E, the following order requires the establishment of SDG&E's SAM balancing account on October 15, 1978. By this means, summary rate reductions are avoided, while at the same time, SDG&E is prevented from earning in excess of its authorized rate of return. We believe this is a reasonable and equitable way to balance the interests of the investor and the consumer.

Findings

1. SDG&E may be earning in excess of its authorized rate of return of 9.67 percent.
2. The primary reason for any excess SDG&E earnings is the unexpected availability of large quantities of natural gas for interdepartmental sales.
3. The establishment of an SAM balancing account, prior to the date proposed by SDG&E, will prevent SDG&E from reaping the benefits of any excessive earnings from interdepartmental sales, and will at the same time protect SDG&E from losses occasioned by a sudden downward fluctuation in gas supply.
4. The staff recommendation for immediate implementation of the SAM balancing account is reasonable when modified to require implementation no later than October 15, 1978.
5. In order to direct SDG&E to establish its SAM balancing account no later than October 15, 1978, the effective date of this order should be the date hereof.

Conclusions

1. The motion of the City for an immediate partial general rate reduction should be denied.
2. SDG&E should be ordered to establish its SAM balancing account no later than October 15, 1978.

IT IS ORDERED that:

1. The motion of the City of San Diego for an immediate partial general rate reduction is denied.

2. San Diego Gas & Electric Company shall file, under General Order No. 96-A, a revised Advice Letter Filing implementing a Supply Adjustment Mechanism balancing account effective on October 15, 1978, or earlier.

The effective date of this order is the date hereof.

Dated at San Francisco, California, this 6th day of OCTOBER, 1978.

*I will file a dissent.  
William Sproull*

*Robert Bahnam*  
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President

*Victor L. Styring*  
\_\_\_\_\_  
*Richard W. Spaul*  
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*Clare T. Deziel*  
\_\_\_\_\_  
Commissioners

APPENDIX A

LIST OF APPEARANCES

Applicant: Gordon Pearce, Stephen A. Edwards, and Jeffrey Lee Guttero, Attorneys at Law, and John H. Woy, for San Diego Gas & Electric Company.

Interested Parties: John H. Witt, City Attorney, by William S. Shaffran, Deputy City Attorney, and Chett T. Chew, for the City of San Diego; Graham and James, Boris H. Lakusta, and David J. Marchant, by Byde Clawson, Attorney at Law, for California Hotel and Motel Association and Western Mobilehome Association; Christopher Ellison, Attorney at Law, for California Energy Commission; William L. Knecht, Attorney at Law, for California Association of Utility Shareholders; Earl R. Sample and William E. Marx, Attorney at Law, for Southern California Edison Company; Eric Stern, for California Public Interest Research Group; Thomas S. Knox, Attorney at Law, for California Retailers Association; Jeanne M. Bauby, Attorney at Law, for California Farm Bureau Federation; Philip R. Mann, Attorney at Law, for P. R. Mann, Consultants; Thomas J. Vargo, for Federal Executive Agencies; Dr. Edward J. Neuner, for himself; Etta Gail Herbach, Attorney at Law, for Consumer Interest of All Federal Executive Agencies; and David X. Durkin and Fritjof Thygeson, for San Diego Energy Coalition.

Commission Staff: Mary Carlos, Rufus G. Thayer, and Maxine C. Dremann, Attorneys at Law, Kenneth K. Chew, and Bruce M. De Berry.