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Decision No. 90882 OCT 10 1979

BEFORE THE PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

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| 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. 58656 (Filed February 7, 1979) |

Jeffrey Lee Guttero, Attorney at Law, for applicant.
William S. Shaffran, Attorney at Law, for City of San Diego, interested party.
Robert Cagen, Attorney at Law, and Julian Ajello, for the Commission staff.

O P I N I O N

Pursuant to the generic Energy Cost Adjustment Clause (ECAC) decision, Decision No. 85731 dated April 27, 1976, in Case No. 9886 (79 CPUC 758), San Diego Gas & Electric Company (SDG&E) and other electric utilities regulated by the Commission file applications for rate adjustments every six months based on their actual cost of producing electricity for a recent past period, designated the record period.

As originally filed, the instant application requested authority to increase the ECAC billing factor applicable to lifeline sales from 2.078 cents per kilowatt hour (kWh) to 2.180 cents per kWh and to increase the ECAC billing factor applicable to nonlifeline sales from 3.310 cents per kWh to 3.324 cents per kWh. SDG&E estimated that the request would increase revenue by $1,580,900 or 0.63 percent for the six-month period beginning March 1, 1979.

At the time of filing this application, SDG&E's two previous ECAC filings (Applications Nos. 57780 and 58263) had not been fully resolved. By Decision No. 90404 dated June 5, 1979, those applications were resolved. As a result of Decision No. 90404, SDG&E revised its request. It now seeks to increase the ECAC billing factor applicable to lifeline sales from 2.078 cents per kWh to 2.164 cents per kWh and to decrease the ECAC billing factor applicable to nonlifeline sales from 3.310 cents per kWh to 3.308 cents per kWh. SDG&E estimates that this would have increased revenue by $763,800 or 0.30 percent for the six-month period beginning March 1, 1979.

Public hearing was held before Administrative Law Judge O'Leary at San Diego on August 14 and 15, 1979. The matter was submitted on August 24, 1979 with the filing of late-filed Exhibit 9 and concurrent briefs by the parties.

<u>Summary of Decision</u>

This decision authorizes SDG&E to increase its ECAC billing factor for both lifeline and nonlifeline sales by .012 cents per kWh. The increase will generate additional revenue of approximately $547,750 for a six-month period. The increase is necessitated because of oil sale losses incurred between July 1, 1978, and December 31, 1978. SDG&E maintains the oil sale losses totaled $874,300 of which $437,500, the amount of cost reduction for burning gas rather than oil, is recoverable through ECAC. The remainder ($436,800) SDG&E seeks to amortize over the remaining life of the separate memorandum account established pursuant to Decision No. 90404 which authorizes disallowed oil sale losses to be amortized over a three-year period commencing July 1, 1979.

This decision authorizes amortization of only $98,500. The remaining $338,300 loss is a result of a sale of aluminum which SDG&E had previously acquired as payment for oil. This decision finds that the loss from the aluminum sale should not be amortized as a disallowed oil sale loss, since it is not an oil sale loss.

Oil Sale Losses

The manner of treating oil sale losses for SDG&E was last set forth in Decision No. 90404 dated June 5, 1979, in Applications Nos. 57780 and 58263. In that decision we stated:

> "After careful consideration of the consultants report and the other evidence concerning SDG&E's fuel procurement policies and practices, we conclude that such policies and practices, in the aggregate, have not been imprudent. However, it would be neither fair nor reasonable to allow for the recovery in electric rates of the adjusted oil sale losses of $3,840,582 plus related interest (i.e., total oil sale losses of $5,018,847 reduced by $1,178,265 to allow for the reduction in costs for burning gas rather than oil) since the economics from the standpoint of the SDG&E's Electric Department and its ratepayers favored burning oil and rejecting gas rather than selling oil at a loss. Furthermore, from the SDG&E total company standpoint, the adjusted oil sale losses have been amply offset through excess revenues generated by interdepartmental gas sales, as shown in Exhibit 23, supra.
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> "Accordingly, we hold that oil sale losses in the amount of $3,840,582, plus related interest, should not be recovered and that oil sale losses in the amount of $1,178,265, with related interest, should be recovered through ECAC. To mitigate the immediate impact on SDG&E's financial position of this disallowance, an interest-bearing procedure should be used to amortize the $3,840,582

> loss plus related storage expense and interest over a 36-month period. Under this procedure a separate memorandum account will be established to credit the balancing account over a 36-month period. Accordingly, the ECAC billing factor continues to reflect the ECAC balancing account without adjustment."

In this proceeding SDG&E seeks authority to treat oil sale losses in the amount of $874,300 in an identical manner. The amount to be recovered, which is the reduction in costs for burning gas rather than oil, is $437,500. The disallowed amount totaling $436,800, would be amortized similarly to the amortization authorized in Decision No. 90404.

The oil sale loss figure includes a loss of $338,300 resulting from a sale of aluminum redraw rods. None of the $338,300 is a recoverable amount within the meaning of Decision No. 90404. The question to be answered herein is whether said amount should be included in the amount to be amortized. The City of San Diego takes the position that the aluminum redraw rod transaction be excluded. The staff made no recommendation with respect to this transaction.

The aluminum redraw rods were purchased by SDG&E for approximately 400,000 barrels of oil sometime prior to July 1978. SDG&E sustained a book loss of approximately $1,500,000 on the transaction. The $1,500,000 loss was a portion of the $5,018,847 oil loss disposed of in Decision No. 90404. At the time SDG&E exchanged the oil for the aluminum redraw rods, SDG&E anticipated the future construction of quite a bit of high voltage line. It was felt that the aluminum redraw rod could be used as a supply of raw material from which conductor could be made for the transmission line. Subsequently, SDG&E accepted a bid from a large manufacturer of conductor which included a provision that there would be no escalator clause on the cost of the raw material supplied by the manufacturer. As a result of accepting the bid, SDG&E decided to sell the aluminum redraw rod.

SDG&E contends that this transaction represents the final disposition of a continuing transaction which was a part of earlier proceedings. We do not agree. The sale of the aluminum redraw rods is a separate transaction and must be treated as such. We agree with the City of San Diego that the aluminum redraw rod transaction should be excluded from the oil sale loss figure.

The remaining oil sale losses will be treated similarly to the treatment authorized by Decision No. 90404. We hold that oil sale losses in the amount of $437,500 (with related interest) was reasonably incurred and should be recovered through ECAC and that the disallowed portion of $98,500 should be amortized over the remaining time of the 36-month memorandum account established pursuant to Decision No. 90404.

Rate Design

Two rate design exhibits were prepared by SDG&E and the staff. SDG&E's rate design proposals are set forth in Exhibit 4 and Exhibit 8. The staff's rate design proposals are set forth in Exhibit 6 and Exhibit 9. Exhibits 4 and 6 are based upon inclusion of the sale of aluminum redraw rods as part of the disallowed oil sale losses to be amortized over the remaining time of the memorandum account established pursuant to Decision No. 90404. Exhibits 8 and 9 are based on exclusion of the sale of the aluminum redraw rods as part of the disallowed oil sale losses to be amortized over the remaining time of the memorandum account established pursuant to Decision No. 90404.

Since we have decided that the aluminum redraw rod loss should be excluded from the oil loss figure, we will discuss the rate design proposals set forth in Exhibits 8 and 9 only.

SDG&E proposes an increase in the offset rate of .086 cents per kWh to all customers. It further proposes a decrease in the balancing rate of all nonlifeline customers of .094 cents per kWh. Under SDG&E's proposal all lifeline sales would increase by .086 cents per kWh and all nonlifeline sales would decrease by .008 cents per kWh. SDG&E's proposal would produce an increase in revenue of approximately $546,700 for the six-month period.

The Commission staff recommends that the increase be spread on a uniform cents per kWh increase to all sales. The staff-recommended rate design would increase the offset rate by .086 cents kWh to all sales and would reduce the balancing rate by .074 cents per kWh for all customers. Since there presently is no balancing rate for lifeline sales, the staff-recommended rate design would establish a negative balancing rate for lifeline sales of .074 cents per kWh. Under the staff's recommended rate design the ECAC billing factor would be increased by .012 cents per kWh for all sales. Based on SDG&E's estimated sales set forth in Exhibit 8, the staff recommendation would produce additional revenue of approximately $547,750 for a six-month period.

As an alternative the staff proposes a uniform percentage increase to all sales of 0.413 percent. Under the staff's alternate proposal the ECAC billing factor would increase by .009 cents per kWh for lifeline rates and by .014 cents per kWh for nonlifeline sales. Under this proposal the offset rate would increase by .086 cents for all sales; a negative balancing rate of .077 would be established for lifeline sales and the balancing rate for nonlifeline sales would be reduced by .072 cents.

SDG&E argues that at the time the balancing rate was formulated there was an undercollection of approximately $21 million. As of December 31, 1978, the balancing account shows an undercollection of approximately $16 million. Since the balancing rate was never applied to lifeline sales and, therefore, never contributed to the reduction of the undercollection, lifeline sales should not now benefit from a reduction of the balancing rate.

This is the first ECAC proceeding and opinion which changes the ECAC billing factor since the last general rate increase decision. That decision established the current differential between lifeline and nonlifeline base rates, with those rates being set to provide a conservation incentive. SDG&E's proposal, which would increase the billing factor on lifeline sales by .086 cents per kWh, may unduly disturb the rate relationship between lifeline and nonlifeline and possibly impair the conservation incentive. The other element of SDG&E's proposal, to decrease the nonlifeline billing factor by .008 cents per kWh, is unacceptable because a rate reduction, which will be very temporary given escalating energy costs, would give a false signal to SDG&E's nonlifeline customers as to the true cost of energy at this period when we are attempting to encourage all customers to conserve. Accordingly, we will adopt the staff's recommendation to increase the ECAC billing factor by .012 cents per kWh to all sales, including lifeline.

Findings of Fact

1. Between July 1, 1978 and December 31, 1978, SDG&E incurred oil sale losses totaling $536,000.

2. The sale of aluminum redraw rods at a loss of $338,300 is not an oil sale loss but rather a separate transaction not related to energy.

3. Oil sale losses of $437,500, together with related interest, from fuel oil sales were reasonably incurred and should be recovered through ECAC.

4. Oil sale losses of $98,500 were not reasonably incurred by SDG&E. Consistent with Decision No. 90404, this amount was not offset by cost savings to SDG&E as a result of burning gas during the record period.

5. The $98,500 oil sale loss disallowed herein can be credited to the ECAC balancing account monthly over the remaining life of the separate memorandum account established in accordance with Decision No. 90404.

6. The loss of $338,300 as a result of the sale of aluminum redraw rods cannot be credited to the ECAC balancing account because it is not a direct oil sale loss.

7. The staff-recommended rate design which increases the ECAC billing factor by .012 cents per kWh to all sales is reasonable.

8. The increase authorized herein will produce revenues of approximately $547,750 for a six-month period.

9. 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.

Conclusions of Law

1. SDG&E should be authorized to file and place into effect the authorized ECAC billing factors found to be reasonable in the findings set forth above.

2. SDG&E should be authorized to amortize the amount set forth in Finding 5 over the remaining life of the separate memorandum account established pursuant to Decision No. 90404.

3. The following order should be effective the date of signature, since there is an immediate need for the rate relief and SDG&E is already incurring the costs which will be offset by the rate increase authorized herein.

ORDER

IT IS ORDERED that:

1. San Diego Gas & Electric Company is authorized to file and place into effect revised Energy Cost Adjustment Clause (ECAC) billing factors as follows: Lifeline ECAC billing factor 2.090 cents per kWh and nonlifeline ECAC billing factor 3.322 cents per kWh.

2. San Diego Gas & Electric Company is authorized to amortize $98,500 as a credit to the ECAC balancing account monthly over the remaining life of the memorandum account established pursuant to Decision No. 90404.

The effective date of this order is the date hereof.

Dated OCT 10 1979, at San Francisco, California.

President

Commissioners

Commissioner Claire T. Dedrick, being necessarily absent, did not participate in the disposition of this proceeding.