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Decision No. 91545 APR 15 1980

ALT/JEB ORIGINAL 16

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. 59409
(Filed January 29, 1980)

Jeffrey Lee Guttero and William L. Reed, Attorneys at Law, for applicant.
John W. Witt, City Attorney, by William S. Shaffran, Deputy City Attorney, for City of San Diego; and Ronald E. Anderson, Attorney at Law, for Southern California Edison Company; interested parties.
James T. Quinn, Attorney at Law, for the Commission staff.

O P I N I O N

Summary

San Diego Gas & Electric Company (SDG&E) is authorized to increase its Energy Cost Adjustment Clause (ECAC) billing factors to recover increased energy-related expense necessary to serve its customers. The increase will increase revenue by approximately $152.3 million annually, or 23.6 percent.

The decision authorizes amortization of the balancing account over a six-month period rather than one year. This should help alleviate cash flow and financing problems which SDG&E is experiencing. This increase in electric rates will not increase SDG&E's rate of return; it is a direct offset for the utility's energy costs.

The reasonableness of certain utility practices related to fuel purchase expense and the inclusion in ECAC of certain categories of expense related to fuel purchase are matters at issue in a generic ECAC investigation (OII 56). The Commission's Decision No. 91277 in OII 56 ordered that issues relating to the reasonableness of recovering particular items of expense be deferred from current ECAC proceedings until subsequent such filings.

Therefore, the authorization of rate increases by this decision does not constitute a final decision as to the reasonableness of SDG&E's fuel expense for the record period.

The increases in ECAC billing factors authorized by this decision produce a nonlifeline residential average rate which is nearly 41 percent above the lifeline average rate, a slightly increased differential which is expected to encourage conservation and which is consistent with previously adopted Commission policy. The authorized billing factors assign an approximately equal cents per kWh increase, on the average, to each customer class, considering the residential class as a whole.

Decision No. 91106 ordered SDG&E to prepare a study to determine the effect of price on elasticity of demand for customers whose usage exceeds the lifeline quantity and customers whose usage usually stays within the lifeline quantity. The study is not yet completed. This decision requires the study to be presented with SDG&E's next application for an ECAC or general rate increase.

Background

The instant application requests authority to increase the ECAC billing factors as follows:

Type of Service	Present Rate 1/	Proposed Rate 1/
Domestic lifeline	2.410	3.620
Domestic nonlifeline	3.834	5.569
All other schedules	3.732	5.190

SDG&E estimates that the request will increase revenues by an estimated $152.3 million annually or 23.6 percent.

A duly noticed public hearing was held before Administrative Law Judge O'Leary at San Diego on March 10, 11 and 12, 1980. The matter was submitted on the latter date.

The ECAC billing factor recovers expense a utility reasonably incurs for electrical energy or the fuel necessary to produce such energy, and as fuel and energy costs have escalated,

1/ Expressed in cents per KWh.

the ECAC billing factor represents a very substantial portion of the customer's electric bill. The ECAC billing factor, and ECAC as a ratemaking mechanism, allows dollar-for-dollar recovery of energy-related expense for the utility, but despite the offset nature of ECAC, the utility has the burden of demonstrating the incurred energy-related expense to be recouped through ECAC is reasonable and prudent (which would justify the Commission's authorizing higher rates to recover the expense from customers). The total ECAC billing factor at any given time is comprised of two components: (1) the balancing rate component is designed to clear the accrued balance in the balancing account over a 12-month period (the balance can be positive or negative, depending on whether the existing billing factor recovered too little or too much with respect to incurred energy-related expense); and (2) the offset rate component recovers fuel-related expense based on a relatively recent 12-month recorded period. Obviously, if the offset rate component is based on recorded period conditions that vary from actual conditions while the revised offset rate is in effect, there will be a resulting over- or under-collection in the balancing account. In this proceeding, the record period with respect to the balancing account (or balancing rate) is the period August 1, 1979 through December 31, 1979 and the recorded period for energy-related expense is based on the year ended December 31, 1979.

Pending Generic Investigation

The Commission presently has an investigation in progress into the operation of ECAC (OII 56) with various proposals for modification or refinement of the existing clause and related rules and procedures. In view of substantial current undercollections and cash flow problems, our Decision No. 91277, issued January 29, 1980, in OII 56, ordered that issues relating to the reasonableness of recovering particular items of expense be deferred from the next ECAC proceeding of each respondent utility until subsequent proceedings. For these reasons, the authorization of rate increases by this decision will not constitute a final determination as to the reasonableness of SDG&E's fuel expense for the record period.

Included in OII 56 are specific issues concerning particular categories of expense that have or have not been allowed in ECAC previously and may or may not be allowed in the future. Following the final order in OII 56 we will reexamine the record period of this proceeding (and any subsequent SDG&E ECAC proceedings) and make appropriate adjustments to reflect the operation of the revised clause as if it had been operative at the time of the filing.

Development of the Revised Offset Rate

SDG&E indicated that, based on energy-related expense (which the ECAC billing factor is to recover) for the 12 months ended December 31, 1979, it had incurred energy-related expense of $66.5 million in excess of revenue generated by current ECAC billing factors. No party took exception to SDG&E's development of the net amount of incremental energy-related expense to be recovered over the coming 12-month period through the offset rate; and if the incremental amount to be recovered ($39.2 million) varies with recorded experience, the difference will be reflected in the balancing account.

Development of the Revised Balancing Rate

The record period in this proceeding for review of the ECAC balancing account is August 1, 1979 through December 31, 1979. Following is the development of the ending balance as presented by SDG&E:

Summary of Energy Cost Adjustment Account Entries
August 1, 1979 through December 31, 1979
(Thousands of Dollars)

Month (1979)	Beginning Balance (a)	Allocated Energy Expense (b)	Offset Revenue(1) (c)	Fuel Related Revenue From Off-System Sales (d)	Oil Sale Loss (e)	Interest (f)	Ending Balance (4) (g)
Aug.	16,199.3	29,670.4	24,484.1	5.4	35.1	109.7	21,525.0
Sept	21,525.0	31,380.9	25,749.0	221.5	—	141.3	27,076.7
Oct.	27,076.7	29,791.1	26,839.7	135.3	(338.3)(2)	144.9	29,699.4
Nov.	29,699.4	31,704.0	25,089.9	—	—	192.5	36,506.0
Dec.	36,506.0	35,135.3	25,786.7	—	(293.1)(3)	237.3	45,798.8
Total		157,681.7	127,949.4	362.2	(596.3)	825.7	

(1) Includes applicable revenue from offset rates, balancing rates, DWR Sales, the ROSA Amortization pursuant to Decisions 90404 and 90882 and reflects the ECAC portion of lifeline refunds.

(2) Adjustment for December 1978 disallowed aluminum loss pursuant to Decision 90882 in Application 58656. Negative Interest effect of $19,219 reflected in Column (f).

(3) Includes $35,300 negative adjustment for February and March 1979 Fuel transaction losses disallowed by Decision 91106 in Application 59108. Negative Interest effect of $1,939 reflected in Column (f) and $11,800 adjustment to the December gains, to be booked in January 1980, which relates to the December 1979 Moore-McCormack transaction.

(4) Sum of Columns a + b - c - d + e + f.

SDG&E proposes a balancing rate of 0.942¢ per kWh so that the $45.8 million undercollection in the ECAC balancing account will be amortized over a six-month period rather than a one-year period in order to alleviate cash flow and financing problems which SDG&E is experiencing. The Commission staff believes that the amortization of the balancing account over a six-month period is justified by present circumstances. The City of San Diego took no position with respect to the six-month amortization proposal.

SDG&E has included $948,206 plus interest on this amount of $21,300 as a debit to the balancing account to customers who had not received the full lifeline allowances to which they were entitled (e.g., for electric space and/or water heating). The issue of refunds was fully discussed in Decision No. 91106 dated December 19, 1979 in Application No. 59108 (SDG&E's last ECAC application), and need not be repeated herein.

The city of San Diego questions whether SDG&E should collect interest on the amounts that were refunded to the customers which interest in this proceeding totals $21,300. In the last ECAC proceeding the Revenue Requirements Division auditor who testified requested that we defer a decision on the reasonableness of SDG&E's ratemaking treatment of the refunds pending further investigation. In Decision No. 91106 we stated "We would like the benefit of our staff's analysis of this issue after investigation." Although the request to defer a decision on the reasonableness of this issue was not renewed in this proceeding, we will again defer a decision since the staff's investigation is not yet completed. It is expected that the staff investigation will be completed and a recommendation will be presented at the next ECAC proceeding. One of the issues the auditor from the Revenue Requirements Division raised is whether the customers receiving the refunds should receive interest on the amounts of the refunds. We will also defer a decision on this issue until after the completion of the investigation and the presentation of a recommendation by our staff. We will allow SDG&E to recover the $969,900 in question through the balancing rate adopted herein, subject to adjusting the balance in subsequent ECAC proceedings.

Rate Design

SDG&E proposes an ECAC billing factor (combined balancing rate and offset rate) in cents per kWh as follows:

	Current Rate	Proposed Rate
Lifeline	2.410	3.620
Domestic Nonlifeline	3.834	5.569
All Other Schedules	3.732	5.190

The proposed rates were developed to produce a lifeline average rate which is 17 percent less than the proposed total average system rate. This is the same differential contained in current rates which were authorized by Decision No. 91106.

The Commission staff believes that the rates proposed by SDG&E are reasonable. The staff states that the proposed rates fall within our guidelines established for Pacific Gas and Electric Company in Decision No. 91107 dated December 19, 1979.

In that decision we established a policy that electric rate restructuring between classes of service be accomplished only in general rate proceedings. We set as our standards for the revision of ECAC billing factors that the nonlifeline residential total average rate should remain the highest rate on the system and should be set 35 to 50 percent above the lifeline total average rate, and that

> "lifeline and nonlifeline residential ECAC rates should be calculated in relation to a single ECAC rate for nonresidential customers, so as to assign an equal cents per kWh increase, on the average, to each customer class (including the residential class as a whole)."

In this case the rate design proposed by SDG&E increases the percentage differential between the lifeline and nonlifeline residential total average rates from the current 38 percent to nearly 41 percent. This modest increase in the spread between lifeline and nonlifeline rates is entirely consistent with the policy established in Decision No. 91107 and is warranted as an incentive to conservation among residential customers whose electricity usage exceeds lifeline allowances.

We will adopt the rate design proposed by SDG&E and found reasonable by the staff. We wish to make clear, however, that it is the consistency of such rate design with the standards enunciated in Decision No. 91107, rather than the 17 percent differential between lifeline and total average system rates, which constitutes the basis for our decision on this issue.

Elasticity Study

Ordering Paragraph 3 of Decision No. 91106 ordered SDG&E to: "(a) Expeditiously undertake to apply accepted statistical methodology and study the consumption patterns of its domestic electric customers before and after this and subsequent rate increases. A random sample of customers who usually exceed the lifeline quantity and one of those who usually stay within that quantity should be studied to determine the effect of price on elasticity of demand for both categories of customer. Details of this study shall be coordinated by SDG&E with the Commission's Electric and Energy Conservation Branches. The results shall be presented in subsequent ECAC and general rate increase proceedings. (b) Prepare for presentation in subsequent ECAC and general rate proceedings information similar to that contained in Exhibit 9, on a seasonally adjusted basis, that illustrates consumption per average customer by customer class. (c) Prepare for presentation in subsequent ECAC and general rate increase proceedings information on what percent of domestic customers' usage falls within the KWh usage categories as set forth in Appendix D." With respect to the ordered study, the staff believes that satisfactory progress is being made by SDG&E and also believes that it is most important that SDG&E be allowed the time to make this a thorough and accurate study. In Decision No. 91106 we stated in discussing the study, "It is, for example, conceivable that we might find it necessary to establish an ECAC billing factor and/or a base domestic tailblock rate at some usage point that provides a still higher unit price to the domestic user who consumes at levels far in excess of essential household needs; such customers may be abusive users who should pay accordingly as their high use likely contributes to peak-period generation demands." We therefore, expect SDG&E to present its completed study in its next ECAC and general rate applications.

Findings of Fact

1. Based on energy-related expense incurred in the 12 months ended December 31, 1979, the application of the existing ECAC billing factor offset rate would result in recovering $66.5 million less than total energy-related expense.

2. As of December 31, 1979 undercollections in the balancing account plus interest therein totaled $45.8 million.

3. Revenue Requirements Division staff has not completed its investigation of the refunds to electric customers who did not receive proper Lifeline quantities which refunds, plus interest, in the amount of $969,506 were credited to the balancing account.

4. SDG&E can be allowed to secure the $969,506 for the refunds through the balancing rate adopted in this proceeding, subject to debiting or otherwise adjusting the balance upon a final determination on the reasonableness of the ratemaking treatment proposed by SDG&E.

5. Under present circumstances SDG&E can be allowed to amortize the balancing account over a six-month period.

6. The increases authorized herein will increase revenues by approximately $152.3 million annually or 23.6 percent.

7. The increases authorized herein will produce a nonlifeline residential average rate nearly 41 percent above the lifeline average rate, while imposing an approximately equal cents per kWh increase, on the average, upon each customer class.

Conclusions of Law

1. The entries to the ECAC balancing account covered by the record period under review herein should be subject to further review for reasonableness.

2. SDG&E should be authorized to establish the revised ECAC billing factors set forth in the following order: such rates are fair, just, and reasonable, and to the extent subsequent review of balancing account entries result in changes to the balancing rate, any over-collection will be credited to the balancing account.

3. SDG&E should be ordered to present the elasticity study ordered in Decision No. 91106 at its next ECAC or general rate proceeding.

4. The following order should be effective the date of signature because SDG&E is incurring the increased energy-related expense the revised rates are to recover.

O R D E R

IT IS ORDERED that:

1. The following Energy Cost Adjustment Clause (ECAC) billing factor rates may be assessed by San Diego Gas & Electric Company (SDG&E) upon filing revised tariffs with the Commission within five days after the effective date of this order. Such filing shall be in conformance with General Order No. 96-A:

Domestic lifeline	3.620¢/kWh
Domestic nonlifeline	5.569¢/kWh
All other schedules	5.190¢/kWh

2. The reasonableness of entries to SDG&E's ECAC balancing account during the record period August 1 through December 31, 1979 is subject to further examination in the subsequent ECAC proceeding.

3. The reasonableness of entries to SDG&E's ECAC balancing account during the record period January 1 through July 31, 1979 is subject to further examination in the subsequent ECAC proceeding with the exception of oil sale transactions which were disposed of in Decision No. 91106.

4. SDG&E shall present the elasticity study ordered in Decision No. 91106 in its next ECAC and general rate increase applications.

The effective date of this order is the date hereof.

Dated APR 15 1980, at San Francisco, California.

President

Commissioner John E. Bryson, being necessarily absent, did not participate.