

ORIGINAL

Decision No. 92558 DF 100  
DEC 30 1980

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 Decrease its Electric )  
Rates and Charges in Accordance with )  
the Energy Cost Adjustment Clause in )  
its Electric Tariff Schedules, as )  
modified by Decisions 91269 and 91277 )  
in OII 56 dated January 29, 1980. )

Application No. 59945  
(Filed September 18, 1980)

William L. Reed, Stephan A. Edwards, and  
Jeffrey Lee Guttero, Attorneys at Law,  
for applicant.  
John W. Witt, City Attorney, by William S.  
Shaffran, Deputy City Attorney, for the  
City of San Diego, interested party.  
Michael B. Day, Attorney at Law, and  
Robert Weissman, for the Commission  
staff.

INTERIM OPINION

San Diego Gas & Electric Company (SDG&E) seeks authority to decrease, effective November 1, 1980, its electric rates and charges under the Energy Cost Adjustment Clause (ECAC) included in its electric tariff schedules. The requested reduction in electric revenues for the twelve-month period beginning November 1, 1980 would be an estimated \$25.0 million. In addition, in SDG&E's last ECAC A.59643 the presiding Administrative Law Judge (ALJ) requested SDG&E and the Commission staff (staff) to inquire into certain United Petroleum Distributors, Inc. (UPD) transactions and to be prepared to generally discuss this matter in the next ECAC filing.

This application was combined for hearing with SDG&E's A.60013 for authority to increase its gas rates pursuant to its purchased gas adjustment clause and its supply adjustment mechanism. After due notice, public hearings were held before ALJ N. R. Johnson in San Diego on December 2, 3, 4, and 5, 1980 and in Los Angeles on December 10 and 11, 1980.

The staff made a detailed, in-depth investigation into the UPD transactions. The stated essence of the staff investigation was the manner in which the management of SDG&E considered, entered into, and renegotiated the various fuel exchange agreements.

SDG&E presented its manager of Accounting Services Department, Frank H. Ault, and its vice president - Resource Planning, Ronald W. Watkins, to provide testimony and exhibits detailing these transactions. The staff presented one of its financial examiners, Paul Grove, who provided testimony on this subject. The staff wanted to pursue the matter further through additional testimony from witnesses actually involved in the transactions. SDG&E opposed such testimony on the bases that: (1) the inquiry should be limited to the ratemaking implications of the transactions which were mitigated if not eliminated by the establishment of a reserve transferring any financial impact from the ratepayers to the stockholders; (2) the presentation of such further evidence could adversely affect its foreclosure and enforcement proceedings presently before the federal courts; and (3) the evidence already in the record adequately covers the matter. The presiding ALJ ruled in favor of SDG&E on the basis that further evidence on the issue was unnecessary and would be redundant. Staff counsel

then made an offer of proof outlining the further evidence that he would provide the record through the testimony of five additional witnesses. This matter is sufficiently complex and controversial to warrant complete briefing. To provide sufficient time for briefing and not unduly delay the ECAC rate modifications, the proceeding was bifurcated with the proposed ECAC rate phase of the matter being submitted as of December 11, 1980 and the UPD phase of the matter to be submitted subject to the receipt of concurrent opening briefs due February 6, 1981 and concurrent reply briefs due February 27, 1981.

Statements were made at the first day of hearing on behalf of the residents of Borrego Springs by Frank Rido and James Richard who outlined the plight of residents of this low-desert community. According to the statements, these residents are unable to pay the allegedly exorbitant air-conditioning costs resulting from SDG&E's electric rates. To alleviate this situation, they requested that: (1) the air-conditioning lifeline allowance be increased from 400 kilowatt-hours (kWh) per month to 1,500 kWh per month; (2) a lifeline banking system be established to permit utilization of unused lifeline allowances in subsequent months; and (3) the demand charges be eliminated from the smaller businesses' rates to enable them to stay open all year and to permit residents of Borrego Springs to pay electric rates in an equal amount each month for the entire year. These matters are addressed in connection with SDG&E's current A.59788 for a general rate increase and will not be considered in this matter.

Testimony with respect to the ECAC rate modifications was presented on behalf of SDG&E by its rate supervisor, C. R. Green, by one of its rate analysts, K. L. Clay, by its supervisor - Fuel Forecasting, Harvey Escovitz, and by its fuel supply supervisor, R. A. Purves; and on behalf of the staff by associate utilities engineer Ishwar Garg and financial examiner T. A. Doub.

SDG&E proposes to reduce its presently authorized ECAC adjustment rates so that the resulting reduction in electric revenues for the twelve-month period beginning November 1, 1980 would be approximately \$25 million. It is SDG&E's position that the revenue reduction computations are consistent with the calculations included in D.91971 dated July 2, 1980 in A.59643, SDG&E's most recent ECAC proceeding.

According to the testimony of SDG&E's witness, the present balancing rate was calculated using an estimated July 1, 1980 ECAC balancing account undercollection of \$68.9 million, as compared to an actual undercollection as of November 1, 1980 of \$33.9 million. The \$35.0 million differential, attributable to the modified ECAC procedure, results in a negative adjustment to the current positive balancing rate.

In the development of the ECAC adjustment rate SDG&E used a recorded balance in the energy cost adjustment account as of November 1, 1980 of \$33.91<sup>2</sup> million, and the staff used a figure of \$32.6656 million with the \$1.2465 million differential representing a staff adjustment relating to inventory pricing of UPD exchange oil. The method of calculating the ECAC adjustment rates used by SDG&E and the staff was identical and followed the criteria set forth in D.91971, supra. This <sup>is</sup> criteria

includes a six-month amortization period of the balancing account balances and a uniform cent per kWh decrease for each class of service and for each rate schedule within the nondomestic classes. Within the domestic class, it is proposed to continue the two-tier rate design. The proposed decrease for the domestic schedules was calculated by allocating the revenue reduction for the domestic class in a manner which results in a Nonlifeline Domestic Average Rate which is 50 percent above the Lifeline Domestic Average Rate. The following tabulation sets forth the Energy Cost Adjustment Billing Factor (ECABF) at present rates, as computed by SDG&E and as computed by the staff.

dl

Item	ECABF c/kWh		
	Present	SDG&E Proposed	Staff Calculated
Lifeline	4.950	4.774	4.752
Nonlifeline Domestic	8.250	7.903	7.870
Other Than Domestic	7.143	6.897	6.870

As previously stated, the differences in the ECABF rates relate to the proper cost of oil involved in the UPD exchange that was placed in SDG&E's storage facilities.

According to the record, the fuel oil exchanged with UPD came from two sources: shipments to SDG&E which were diverted to UPD and fuel oil which was loaded from SDG&E's storage tanks. The oil which was diverted to UPD from incoming tankers was valued at what SDG&E had to pay for that oil. The fuel oil which came out of SDG&E's storage tanks was valued at the moving average price of oil in inventory. SDG&E defends its position on the basis that once the oil is placed in storage, it becomes an integral part of

a homogenous mixture with all barrels being equal. According to SDG&E, when such oil is removed from storage, it should be given an average price of all the oil in storage. SDG&E notes that this Commission has adopted the use of the moving average price inventory method as a proper pricing mechanism to expense fuel oil burned in its power plants in previous ECAC proceedings and that generally accepted accounting principles require that the same fuel oil pricing mechanism be used for all transactions involving the same inventory.

The staff witness noted that the moving average price method used by SDG&E for pricing the UPD exchange oil was lower than the market price of that oil. He testified that the fuel oil should have been priced at SDG&E's cost at the time of the exchange because such treatment would more accurately reflect SDG&E's actual costs at the time of the transaction, SDG&E had not justified why the oil had been shipped from storage rather than directly from suppliers, the fuel oil that was shipped directly was charged at actual cost as should be the oil from storage, and the ratepayers should not be deprived of the lower ECAC burn costs associated with the removal of oil from storage at market price. The difference in pricing practices resulted in SDG&E's balancing account amount, including interest, being \$1,246,457 higher than the staff's as of July 31, 1980.

According to the record, SDG&E supplied some of the UPD exchange oil out of its inventory instead of shipping it direct from its suppliers to avoid under-lift charges resulting from contractual agreements with its suppliers for delivery in San Diego. It is also clear from the record that UPD was to pay the shipping costs related to the exchange oil. The receipt of such

oil not only relieved SDG&E from paying any under-lift charges for oil not shipped, but resulted in lower overall shipping costs to UPD. It is equally clear from the record that such oil was placed into storage as a temporary measure pending its early withdrawal to continue its journey to UPD facilities. It is obvious that such temporary storage is markedly different than the usual procedure where oil is placed in storage to be used at some future undetermined date. SDG&E's method of pricing the exchange oil at the moving average cost of oil in storage results in an exchange value of the oil which is less than the cost of the oil to SDG&E. This loss is then transferred to the ratepayers through the ECAC procedure. We can discern no valid basis to support such an inequity and will, therefore, adopt the staff's position.

Another issue that was raised at the hearing was the reasonableness of SDG&E's forecast of fuel mix and burn quantities for the four-month period under consideration, November 1, 1980 to February 28, 1981. SDG&E estimates its resource requirements as follows:

		<u>Percent of Total Mix</u>
1. Residual Oil	2,933 Gwhr	74%
2. Diesel Oil	84 Gwhr	2%
3. Natural Gas	<u>221</u> Gwhr	<u>6%</u>
Total Fossil Fuels	3,238 Gwhr	82%
4. Nuclear	<u>171</u> Gwhr	<u>4%</u>
Total Generation	3,409 Gwhr	86%
5. Purchased Energy	<u>571</u> Gwhr	<u>14%</u>
Total System Energy	3,980 Gwhr	100%

Extensive cross-examination of SDG&E's witness on this estimate revealed that in the recent past the availability of natural gas and purchased power was greater than estimated indicating the possibility of the above estimate being inaccurate. SDG&E's witness replied that there was a greater than estimated availability of natural gas because of unusually mild winters and that, of necessity, forecast estimates are based on average weather conditions. SDG&E further argues that Commission decisions require that its estimates are to be adopted as filed, as indicated by the following: "The resource mix will be adopted as filed in order to avoid this Commission's prejudging the prudence of the utility's fuel procurement strategy." (D.91277 at page 3 dated January 29, 1980 in OII 56; D.91721 at page 5 dated April 29, 1980 in Pacific Gas and Electric Company's (PG&E) A.59463; and D.92249 at page 4 dated September 16, 1980 in PG&E's A.59463.) Such a measure is to provide expeditious ECAC rate adjustments and relates solely to those matters where the utility's procurement strategy is at issue as differentiated from those instances, such as this proceeding, where the resource mix is based on estimates which reflect average weather conditions rather than anticipated weather conditions. Further, in D.92496 dated December 5, 1980, the final decision in OII 56, we have this to say: "In the interim order we provided that each utility's fuel procurement strategy resource mix estimates would be used as the basis for ECAC calculations. We consider that to be a reasonable solution to the problem for the two annual filings for each utility in which reasonableness is not an issue" (Mimeo. page 14) and note that November 1, the revision date for



this proceeding, is the date established for SDG&E as the date for a review of reasonableness of its fuel costs. In any event, as noted by SDG&E, the only definitive resource mix data of record in this proceeding is that provided by SDG&E and adopted by the staff. We will adopt this data for this proceeding.

Findings of Fact

1. SDG&E's ECAC billing factors were last adjusted in D.91971, supra, for authority to increase rates in accordance with its ECAC procedure.

2. SDG&E's recorded balance in its energy cost adjustment account as of November 1, 1980 was \$33,912,100.

3. SDG&E priced the cost of exchange oil to UPD from storage at the moving average cost of oil in storage. Such a procedure results in the value placed on such exchange oil being less than SDG&E's cost of such oil.

4. The loss incurred by the procedure described in Finding 3 is transferred to the ratepayer through the ECAC procedure and, including interest, is computed by the staff to be \$1.2465 million.

5. The recorded balancing account figure of \$33.9121 million, set forth in Finding 2, should be adjusted downward by this \$1.2465 million to \$32.6656 million to reflect Findings 3 and 4.

6. The staff-recommended ECABF of 4.752 cents per kWh for lifeline rates, 7.870 cents per kWh for domestic nonlifeline rates, and 6.870 cents per kWh for nonlifeline rates other than domestic are reasonable and should be adopted. These factors reflect a six-month balancing account amortization period and an annual decrease of approximately \$27.4 million.

7. The resource mix filed by SDG&E should be adopted for this proceeding.

8. The issue of whether or not the staff should be permitted to present further evidence on the UPD transactions should be deferred until after the receipt of concurrent closing briefs due February 27, 1981.

9. The adopted adjustment factors should be made effective concurrently with the rate changes authorized by D. 92557 dated December 30, 1980 in SDG&E's A.59788 for a general rate increase.

Conclusions of Law

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

2. The effective date of this order should be the date hereof to be concurrent with D. 92557 dated December 30, 1980 in SDG&E's A.59788 for a general rate increase.

INTERIM ORDER

IT IS ORDERED that:

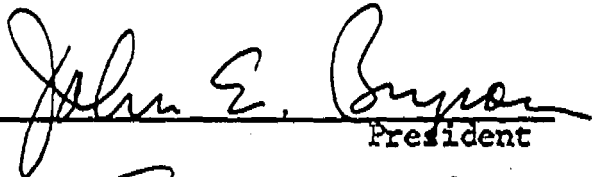
1. The following Energy Cost Adjustment Clause billing factor rates may be assessed by San Diego Gas & Electric Company (SDG&E) upon filing revised tariffs with the Commission within five days after the effective date of this order. Such filing shall be in conformance with General Order No. 96-A, and the revised tariffs shall be concurrent with tariffs filed as a result of Decision No. 92557 dated December 30, 1980 in SDG&E's Application No. 59788:

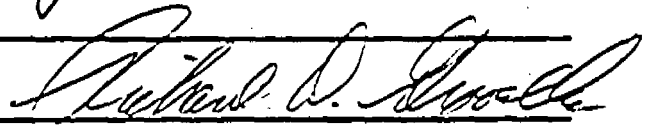
Lifeline	4.752 cents per kilowatt-hour
Nonlifeline - Domestic	7.870 cents per kilowatt-hour
Nonlifeline - Nondomestic	6.870 cents per kilowatt-hour


2. SDG&E's Energy Cost Adjustment Clause balancing account shall, until further order of the Commission, be subject to review and adjustment pending completion of the staff's investigation of oil transactions between SDG&E and United Petroleum Distributors, Inc.

The effective date of this order is the date hereof.

Dated DEC 30 1980, at San Francisco, California.

  
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President

  
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Commissioners

Commissioner Vernon L. Sturgeon, being necessarily absent, did not participate in the disposition of this proceeding.