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ORIGINALDecision No. 92930 APR 21 1981

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 Decision 92496 in OII 56)
 dated December 5, 1980.)

Application No. 60161
 (Filed December 30, 1980)

William L. Reed, Stephen A. Edwards, and
 Jeffrey Lee Guttero, Attorneys at Law,
 for San Diego Gas & Electric Company,
 applicant.

Antone S. Bulich, Jr., Attorney at Law, for
 California Farm Bureau Federation; and
 John W. Witt, City Attorney, by William
S. Shaffran, Deputy City Attorney, for
 the City of San Diego; interested parties.

Michael B. Day, Attorney at Law, for the
 Commission staff.

O P I N I O N

By its original application, San Diego Gas & Electric Company (SDG&E) requested a \$50.1 million annual reduction in electric revenues effective March 1, 1981. The application is the first filed by SDG&E incorporating the provisions of Decision No. 92496 issued December 5, 1980, in OII 56, the generic Energy Cost Adjustment Clause (ECAC) investigation.

On February 9, 1981, SDG&E submitted the prepared direct testimony of its witnesses. As a result of the availability of more recent recorded data, its testimony reduced the request to a revenue decrease of \$40.5 million. The prepared testimony also contained SDG&E's proposal to level its base rates and

reflect the entire residential lifeline-nonlifeline differential in ECAC rates.

Public hearings on this matter were held in San Diego on February 17 and 18, 1981. Appearances were made by SDG&E, the Commission staff, the City of San Diego (San Diego), and the California Farm Bureau Federation (Farm Bureau). The matter was submitted pending receipt of the parties' statement of position respecting the two major issues raised during the hearing: (1) the SDG&E proposal to establish level base rates in this ECAC proceeding and (2) the method of calculating the one-time adjustment to the ECAC balancing account to reflect the carrying costs of values of oil in excess of the volume of oil allowed in rate base during the period of time since SDG&E's last general rate case.

SDG&E's Showing

SDG&E sponsored the testimony of four witnesses in support of the application. The testimony explained the rationale for revising its original request, supported the estimates of the forecasted resource mix, and its costs, and set forth SDG&E's rate design proposal to level base rates.

Subsequent to the December 30, 1980 filing, SDG&E revised its calculations to reflect: (1) recorded ECAC balancing account data for the months of December 1980 and January 1981, instead of estimated data; (2) the current gas price; (3) more current diesel and residual oil fuel prices; and (4) a more current estimate of resource mix. The effect of these revisions is to modify SDG&E's original request from an annual decrease in electric revenues of \$50.1 million to one of \$40.5 million.

SDG&E projected that, as of March 1, 1981, the ECAC balancing account will have an overcollected balance of \$0.5 million. SDG&E requests a four-month amortization of the \$0.5 million overcollection and believes that such an amortization period is most consistent with the ECAC procedure modifications authorized by the Commission in Decision No. 92496. Staff concurs with this request.

In order to effect the annual \$40.5 million reduction in electric revenues, SDG&E recommends that the following rate design proposal be adopted:

Proposed Rates

	<u>Base</u>	<u>ECAC</u>	<u>Total</u>
<u>Lifeline</u>			
Schedules DR & DM ¢/kWh	3.253	3.762	7.015
Schedule DS ^{1/} ¢/kWh	2.928	3.386	6.314
Schedule DT ^{1/} ¢/kWh	2.440	2.821	5.261
<u>Nonlifeline</u>			
Schedules DR & DM ¢/kWh	3.253	8.326	11.579
Schedule DS ¢/kWh	3.253	8.326	11.579
Schedule DT ¢/kWh	3.253	8.326	11.579
<u>Nonlifeline - Nondomestic</u>			
¢/kWh	3.58	6.453	10.033

^{1/} Lifeline Schedules DS and DT reflect the effect of the currently effective 10% and 25% lifeline discounts, respectively.

These proposed rates should be contrasted with the rates currently in effect for SDG&E:

Present Rates

		<u>Base</u>	<u>ECAC</u>	<u>Total</u>
<u>Lifeline</u>				
Schedules DR & DM	c/kWh	2.624	4.752	7.376
Schedule DS ^{1/}	c/kWh	2.362	4.277	6.639
Schedule DT ^{1/}	c/kWh	1.968	3.564	5.532
<u>Nonlifeline</u>				
Schedules DR & DM	c/kWh	4.212	7.870	12.082
Schedule DS	c/kWh	4.212	7.870	12.082
Schedule DT	c/kWh	4.212	7.870	12.082
<u>Nonlifeline - Nondomestic</u>				
	c/kWh	3.58	6.870	10.380

^{1/} Lifeline Schedules DS and DT reflect the currently effective 10% and 25% lifeline discounts, respectively.

SDG&E requests permission to adjust its Energy Cost Adjustment Billing Factors (ECABFs) as follows: (1) decrease Lifeline Domestic Service from 4.752¢/kWh to 3.762¢/kWh, (2) increase Nonlifeline Domestic Service from 7.870¢/kWh to 8.326¢/kWh, and (3) decrease Nonlifeline Nondomestic Service from 6.870¢/kWh to 6.453¢/kWh. SDG&E also proposes to level the present Lifeline Domestic base rate of 2.624¢/kWh and the Nonlifeline Domestic base rate of 4.212¢/kWh, respectively, to 3.253¢/kWh.

For the domestic rate schedules, SDG&E still proposes a rate design which results in a Nonlifeline Domestic Average Rate (NLLDAR) which is 50% above the Lifeline Domestic Average Rate (LLDAR). However, SDG&E is now proposing that the total effect of this 50% differential should be reflected in the domestic ECAC adjustment rates and that the existing domestic lifeline and non-lifeline base rates should be revised to a level cents per kilowatt-hour. The only exception to a level base rate would be that the lifeline base rates for Schedules DS and DT would continue to reflect the effect of the currently effective 10% and 25% lifeline discounts, respectively.

SDG&E's proposal to level the domestic rates would have no effect on bills for domestic service because the proposed total lifeline rate and the total nonlifeline rate are the same as they would be if SDG&E were not proposing to level the domestic base rates. SDG&E's rationale for proposing that base rates be level is as follows: (1) to eliminate the impact on base revenues of the adoption of new lifeline allowances and (2) to lessen the impact on base rate revenues of the possible impact of conservation measures not contemplated when SDG&E's present base rate levels were developed.

As an example of lifeline allowance adjustments subsequently enacted which were not contemplated in SDG&E's most recent rate decision, SDG&E points to SB 1388 which provided for an additional winter season lifeline space heating allowance for multiple sclerosis patients. This means that each household served on Schedule DR in Climate Zone 1 which qualifies for this additional lifeline allowance would realize a monthly reduction in the base rate portion of the bill of \$1.75 if the full amount of the additional allowance is used. This reduction in the base rate portion of the bill will allegedly have an effect on SDG&E's earnings.

As an example of prospective lifeline allowance adjustments which could have an impact on SDG&E's earnings since they were not considered in SDG&E's latest rate case decision, SDG&E notes that SB 1388 also requires a lifeline allowance for air conditioning for multiple sclerosis patients. It is understood that such an allowance will be established by May 1, 1981. Further, if OII 77 is expanded to include SDG&E and results in lifeline allowance adjustments, such action could also have an impact on SDG&E's earnings.

SDG&E argues that an ECAC proceeding is an appropriate forum for consideration of changes in base rate. SDG&E's customers will not be unfairly burdened because the proposal does not affect their final bill. With respect to the legality of adjusting base rates in an ECAC proceeding, SDG&E contends that there is no impediment to such a Commission action.

In fact, SDG&E argues that the Commission's broad authority in offset proceedings was recognized in California Manufacturers Assn. v Public Utilities Commission (1979) 24 Cal 3d 251, wherein the Supreme Court of California stated: "...the commission may make policy decisions in offset proceedings and...need not wait for general rate increase proceedings." (24 Cal 3d at 258). That case involved a Purchase Gas Adjustment offset proceeding in which the Commission made sweeping rate design policy changes. In response to the petitioners' assertion therein that such changes were improper in the context of an offset proceeding, the Court found:

"Moreover, to hold that the commission's power in abbreviated or offset proceedings is limited to mechanical or semi-automatic adjustments would unduly hamper the commission's work. The commission would then be required to hold general proceedings when deciding to question any segment of the prior general proceeding." (24 Cal 3d at 258.)

SDG&E concludes that as a practical matter base rates and ECAC rates will both be affected regardless of the forum chosen to level base rates. The fact that the Commission recently exercised its authority to level PG&E's base rates in OII 77 is a clear indication of its willingness to take this action outside of a general rate case.

With respect to the second major issue of the proceeding, SDG&E strongly challenged staff's position that interest should be excluded from the calculation of the initial balancing account entry reflecting the carrying costs related to changes in the value of oil in inventory. SDG&E argues that logic as well as the clear language of Decision No. 92496 indicate the Commission's intention to allow interest on expenses associated with past carrying costs of fuel oil in inventory.

Staff's Showing

At hearing, the staff presented two witnesses and took the following position on the two key policy issues which arose during the hearings in Application No. 60161: (1) the SDG&E proposal to level base rates in this ECAC proceeding should be denied and (2) the staff adjustment to the ECAC account should be adopted to calculate the one-time adjustments for fuel inventory value carrying costs.

In support of its position opposing the leveling of base rates in an ECAC proceeding, staff points out that SDG&E has made a proposal to level base rates in its amended and pending Application No. 59788, the 1982 test year general rate case. In view of the fact that base rates were just set in Decision No. 92557 effective January 3, 1981, the staff submits that the general rate case is a more appropriate forum to adjust base rates, particularly in view of the fact that the utility's last-minute inclusion of this issue in its amended filing precluded the staff from making a thorough review of the issue.

The staff notes that SDG&E does not have firm evidence of the alleged impact on rates of the new lifeline allowances for multiple sclerosis patients. The estimate of impacts by SDG&E in these proceedings is based upon the assumption that every qualifying ratepayer would always exceed the normal lifeline allowances. The staff questions these assumptions but notes that the record is simply not sufficient to permit an accurate evaluation of the effect on rates. The staff does not see the effects noted as being sufficient to warrant a base rate modification at this time.

Another major justification for leveling base rates in the view of SDG&E was the effect of other conservation allowances or lifeline revisions that were anticipated in OII 77 or similar proceedings. However, SDG&E has no estimates at all of the potential effect of these measures on base rates. Therefore, the staff submits that leveling base rates should be dealt with in a regularly noticed proceeding designed to alter base rates, such as Application No. 59788, not in this proceeding.

The second major issue in this ECAC proceeding was the calculation of the retroactive adjustment permitted in Decision No. 92496. The specific portions of that decision which authorize the adjustment are found in Conclusion of Law 8:

"The recognition of changes in value of the test year volume of oil in storage is effective immediately. Each utility should calculate the appropriate adjustment from the decision in its most recent general rate case." (D.92496, p. 46 mimeo.)

Then the Commission stated in Ordering Paragraph 3.d.:

"The recognition of changes in value of the last adopted test year volume of oil allowed in rate base is effective immediately and shall be calculated from the effective date of the utility's last general rate decision." (D.92496, p. 48 mimeo.)

The staff's position is that the adjustment described in these paragraphs relates to the Commission's instructions for the transition from present procedures to the new ECAC format. There the Commission stated, "Each utility should make the calculation of its recoverable carrying costs relating back to its most recent general rate case decision as the basis for an initial adjustment to ECAC." (D.92496, p. 40 mimeo.) This paragraph mentions only the carrying costs, not associated interest in the ECAC balancing account, and mentions "an initial adjustment" rather than a retroactive calculation as if the adjustment had been made each month since the last general rate case.

Because of the somewhat ambiguous language of the decision, and the staff's interpretation of what is an initial adjustment, the staff is only supporting an adjustment by SDG&E which represents the sum of the carrying costs allowable under the new procedure for the months going back to the last general rate case decision prior to Decision No. 92496. The staff does not read the language cited above to mean that an initial adjustment includes giving full retroactive effect to the adjustment from the time of the last general rate case. Staff's proposed adjustment would reduce the expenses booked in the ECAC account by \$220,819.

The staff submits that Decision No. 92496 is controlling here as it is the only decision which actually deals with the fuel oil carrying cost adjustment specifically. Therefore, the staff urges the Commission to make a specific determination regarding the calculation of the adjustment for past carrying costs, and submits that the sum of the carrying costs, not the carrying costs plus accumulated interest, is the "initial adjustment" called for in Decision No. 92496 as it presently stands.

Position of San Diego

San Diego concurs with staff that SDG&E's application for 1982 test year general rate relief is the proper proceeding in which to consider the proposal to level domestic base rates. In further support of its position, San Diego also contends that notice was not given to SDG&E's ratepayers that this offset proceeding would consider adjustments to base rates.

SDG&E has included in its ECAC Account carrying costs of \$3,819,277 for the increased value of fuel oil in storage for the period of June 10, 1979 through November 30, 1980. Added to this amount is interest of \$220,819 for a total retroactive expense of \$4,040,096. SDG&E maintains that this "adjustment" is authorized by Ordering Paragraph 3.d. of Decision No. 92496 (OII 56), dated December 5, 1980.

Staff has taken the position that the carrying costs are recoverable, but not the interest.

San Diego maintains that none of the \$4,040,096 is recoverable and that if Decision No. 92496 Ordering Paragraph 3.d., as interpreted by the Commission, allows this retroactive recovery, it is void as being contrary to the statutory and judicial rule against retroactive ratemaking. (Public Utilities Code Sections 728, 729 Pacific Telephone and Telegraph Co. v PUC (1965) 62 Cal 2d 634, 650-655; City of Los Angeles v PUC (1972) 7 Cal 3d 331, 338; Southern California Edison Company v PUC (1978) 20 Cal 3d 813, 816-817.)

During the period June 10, 1979 through November 30, 1980, SDG&E's base rates were those set by Decision No. 90405. Decision No. 90405 issued as a result of SDG&E's general rate Application No. 58067. Application No. 58067 used 1979 as its test year and the rates set by that decision remained in effect until new base rates were put into effect by Decision No. 92557 (A.59788) which used 1981 as a test year. The base rates set by Decision No. 90405 contained a carrying cost component for fuel oil in storage. San Diego argues that this application attempts to retroactively change the base rates set by Decision No. 90405 as a result of Decision No. 92496 (OII 56) issued December 5, 1980.

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In Decision No. 92496 the Commission decided that it would start calculating the base rate carrying cost component for fuel oil in storage on an annual basis and that a modified fuel oil rate base adjustment (FORBA) would allow ECAC recovery of financing costs attributable to changes in the price of oil from the adopted price used in the base rate calculation. The rate base component of fuel in storage is now removed from the general rate case and is to be developed annually in conjunction with the annual ECAC review. SDG&E's annual reasonableness review will be the November 1981 ECAC filing.

ECAC recovery is to be allowed for the carrying costs attributable to changes in the price of oil from the adopted price used in the base rate calculation. This FORBA-type adjustment in this proceeding, according to SDG&E, is a positive expense in December 1980 of \$582,747 and a negative expense for January 1981 of \$128,896 and a negative expense for February 1981 of \$146,838. San Diego's only concern with these figures is that if the December figure was computed using the full month of December, it should be adjusted to \$488,756 ($\$582,747 \times \frac{26}{31} = \$488,756$). These are prospective adjustments from December 5, 1980 and whether or not San Diego agrees with the concept they appear to be mandated by Decision No. 92496.

San Diego argues that applying this FORBA-type adjustment to a base rate calculation of carrying cost expense prior to the effective date of Decision No. 92496 (December 5, 1980) is a different matter. San Diego contends that there is a statutory and judicial rule against retroactive ratemaking and allowing SDG&E to recover \$3,819,277 for the period of June 10, 1979 through November 30, 1980 effectively changes base rates for that period of time.

Discussion

The issues posed by Application No. 60161 are relatively limited and straightforward: (1) Should SDG&E's base rates be leveled in this ECAC proceeding? and (2) Should recovery of interest be allowed in the calculation of the retroactive adjustment permitted in Decision No. 92496?

Assuming arguendo that it is appropriate to change base rates in an ECAC proceeding, SDG&E has failed to provide sufficient evidence of record to support a decision to level base rates in this proceeding. SDG&E alleges that increased lifeline allowances for multiple sclerosis patients could have a negative impact on earnings, yet no meaningful evidence regarding SDG&E's potential exposure was presented at hearing. Furthermore, testimony rejecting potential or prospective adjustments in lifeline resulting from OII 77 and their possible impacts on SDG&E earnings is completely speculative. It is not probative evidence. Thus, there is insufficient evidence to conclude that such impacts on earnings would be significant enough to warrant an adjustment of base rates in the ECAC proceeding.

SDG&E has made a proposal to level base rates in its amended Application No. 59788, the 1982 test year general rate case. Since SDG&E has failed to demonstrate the need for such an adjustment in this proceeding, we conclude that the issue of leveling base rates should be addressed in a regularly noticed proceeding designed to alter base rates, such as Application No. 59788.

With respect to the second major issue in this proceeding, we agree with SDG&E's reading of Decision No. 92496. Though the language of Decision No. 92496 may be susceptible of different interpretations, it was our intention that the initial adjustment to account for changes in the value of fuel oil in inventory should be calculated in the same manner as the ongoing adjustment, i.e. including interest. Though Decision No. 92496 is silent on the issue of allowing interest on the expense for past carrying cost, we will clarify our original intention. SDG&E will be allowed recovery of the \$220,819 in interest associated with past carrying costs of fuel oil in inventory during the period of June 10, 1979 through November 30, 1980.

San Diego's allegation of retroactive ratemaking fails on very basic grounds. The Commission retains continuous jurisdiction over ECAC adjustments and the reasonableness of the underlying costs as well as the items to be included thereon. As is evident from Decisions Nos. 91545, 91805, and 91721 in Applications Nos. 59409, 59499, and 59463, the Commission has specifically preserved its

jurisdiction and its right to order adjustments to the utility's balancing accounts through a series of prior decisions. In Decision No. 91545 the Commission reserved certain issues and stated that:

"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."
(Decision No. 91545, mimeo. p. 4.)

Furthermore, the following language of Ordering Paragraphs 2 and 3 of Decision No. 91545 specifically indicates the Commission's intention to preserve jurisdiction over certain matters, including FORBA issue.

"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." (Decision No. 91545, mimeo. p. 11.)

In light of the express preservation of jurisdiction by the Commission in these past ECAC decisions, no claim of retroactive ratemaking can apply in the present case.

In sum, we will authorize SDG&E's request for an annual revenue decrease of \$40.5 million. We will not authorize the leveling of base rates in this proceeding. We will allow recovery by SDG&E of past carrying costs, plus interest, on the value of fuel oil in storage. To give effect to what we have authorized, we will retain the current base rates and adopt the following ECAC billing factors:

Domestic Lifeline	4.752¢/kWh
Domestic Nonlifeline	6.819¢/kWh
Nondomestic Nonlifeline	6.453¢/kWh

The entire reduction in revenues from the domestic customer group is assigned to the Nonlifeline Domestic Rate. Thus, the present lifeline residential ECAC rate of 4.752¢/kWh will be maintained. Any further increase in the rate differential between lifeline and nonlifeline domestic may not necessarily result in increased conservation. The nonlifeline residential rate will be reduced from 7.870¢/kWh to 6.819¢/kWh and the Nonlifeline Nondomestic ECAC rates will be reduced from 6.870¢/kWh to 6.453¢/kWh.

Findings of Fact

1. SDG&E's ECAC billing factors were last adjusted in Decision No. 92558 to reflect energy-related costs incurred during the period ending November 1, 1980.
2. As of March 1, 1981, overcollections in the balancing account totaled \$0.5 million.
3. Amortization of the balancing account over a four-month period is consistent with Decision No. 92496 and will benefit SDG&E's ratepayers.

4. The decreases in SDG&E's billing factors for the forecast period beginning with March 1, 1981, adopted herein were developed through the implementation of projected estimates shown to be justified and reasonable under the circumstances.

5. The decreases in SDG&E's billing factors adopted herein and if in effect for a full 12-month period will result in an annual reduction in electric revenues of \$40.5 million.

6. Recovery of the carrying costs, plus interest, related to changes in the value of fuel oil in inventory is directed by Decision No. 92496 and is appropriate in this ECAC proceeding.

7. Provision of additional lifeline allowances for multiple sclerosis patients will not have a significant impact on SDG&E's earnings.

8. Application No. 59788 is the proper forum in which to address SDG&E's proposal to level base rates.

Conclusions of Law

1. Recovery of the carrying costs, plus interest, related to changes in the value of fuel oil in inventory does not amount to retroactive ratemaking.

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.

3. The following order should be effective on the date of signature since the rates adopted herein more accurately reflect the energy-related expenses actually incurred by SDG&E.

ORDER

IT IS ORDERED that:

1. The following Energy Cost Adjustment Clause (ECAC) billing factor rates may be assessed by San Diego Gas & Electric Company 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 effective immediately upon filing.

Domestic Lifeline	4.752¢/kWh
Domestic Nonlifeline	6.819¢/kWh
Nondomestic Nonlifeline	6.453¢/kWh

2. The ECAC balancing account in question in this proceeding is subject to further review with respect to the reasonableness of recorded expenditures.

The effective date of this order is the date hereof.

Dated APR 21 1981, at San Francisco, California.

John E. Griffin
President

Richard W. Marshall

Thomas W. Smith

Arthur Calver

Patricia C. Green
Commissioners