Process

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BEFORE THE PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

Investigation on the Commission's own motion into the effectiveness of incentive mechanisms to reduce electric utility costs.

F I L E D
PUBLIC UTILITIES COMMISSION
AUGUST 8, 1990
SAN FRANCISCO OFFICE
I.90-08-006

ORDER INSTITUTING INVESTIGATION

On Thursday, August 2, Iraqi forces invaded Kuwait. This aggression was allegedly in response to Kuwaiti overproduction of oil, and has resulted in uncertainty in the United States regarding both the supply and the price of oil from the Middle East. In response to this market uncertainty, domestic suppliers and foreign suppliers outside of the Middle East are expected to raise prices, and greater risk of price fluctuation exists in oil and natural gas markets.

As a result, this Commission finds it necessary and timely to suspend the Annual Energy Rate (AER) for all electric utilities which currently implement the AER as an incentive mechanism to reduce fuel costs. The Commission finds that events such as the developments in Kuwait which affect fuel prices are beyond management control, and therefore the AER is not likely to perform its function as an incentive to management to control fuel costs.

In 1980, in Decision (D.) 92496, the Commission adopted the AER for Pacific Gas and Electric Company (PG&E), Southern California Edison Company (SCE), San Diego Gas & Electric Company (SDG&E), and Sierra Pacific Power Company (SPP). In 1982 and 1983, the Commission modified its earlier decision by D.82-12-105 which increased SCE's AER and by D.83-08-048 which increased the AER for the other three utilities to their current levels.

Since 1983, the Commission has acted periodically to suspend the AER when exogenous factors unduly influenced fuel prices. Between 1985 and 1988, six decision were issued which modified, suspended or reinstated SCE's AER. In 1988, D.88-09-036 suspended PG&E's AER. Since September 14, 1988, SCE's AER suspension had been extended to February, 1990 due to the Commission's recognition of exogenous influences on fuel price volatility. Given this history, the developments in Kuwait and their expected effect on fuel prices constitute good cause to suspend the AER for all the electric utilities at this time.

This decision takes note of the fact that oil deliveries to California utilities are expected to remain relatively uninterrupted in the short term. California's oil sources are primarily either from domestic or Indonesian production. Nevertheless, oil markets are interlinked around the world, and oil suppliers may price existing supplies unpredictably in the ensuing months. Oil commodity markets are already characterized by considerable price volatility. Further, buyers currently dependent on Middle Eastern oil may now redirect their efforts towards more reliable sources, exerting upward price pressure on California's traditional supplies. For all of these reasons, it is prudent to recognize the susceptibility of utility fuel costs to the influence of recent events, and open an investigation into electric utility incentive mechanisms which may better withstand the influence of exogenous events.

On July 18, 1990, in D.90-07-056, the Commission ordered SCE to track AER expenses against those forecasted in the Energy Cost Adjustment Clause proceeding. The Commission also ordered an investigation to explore the effectiveness of the AER and possible replacement of the AER with other mechanisms. This decision opens a new Order Instituting Investigation (OII) into the AER. This OII suspends the AER, and will investigate the effectiveness of the AER as an incentive mechanism for utility management and the suitability of alternative incentive systems.

All electric utilities are named respondents to this investigation. This OII will be supplemented by a further order in

September in which respondents and other interested parties will be afforded an opportunity to file comments and testimony on the issues we wish to explore.

Findings of Fact

1. On August 2, 1990, Iraqi forces invaded Kuwait, causing uncertainty and increased volatility in the markets for gas and oil.

2. As a result of developments in Kuwait, fuel costs are expected to change in ways beyond electric utility management control.

3. Given increased volatility in fuel costs from exogenous factors, the AER is less effective as an incentive mechanism to management to reduce and control fuel costs.

4. D.90-07-056 directed preparation of an investigation into the effectiveness of the AER as an incentive mechanism.

Conclusions of Law

1. The AER should be suspended for PG&E, SDG&E, SCE, and SPP effective on the date of this order until further order of the Commission.

2. This matter did not appear on the Commission's public agenda; however, the unforeseen emergency created by the Iraqi invasion justifies our action today on an emergency basis under Public Utilities Code Section 306(b).

O R D E R

IT IS ORDERED that:

1. The AER is suspended for Pacific Gas and Electric Company, San Diego Gas & Electric Company, Southern California Edison Company, and Sierra Pacific Power Company effective on the date of this order until further order of the Commission.

2. All electric utilities are named as respondents to this investigation.

3. This OII will be supplemented and expanded by further order.

This order is effective today.

Dated August 8, 1990, in San Francisco, California.

G. MITCHELL WILK
President
FREDERICK R. DUDA
STANLEY W. HULETT
JOHN B. OHANIAN
PATRICIA M. ECKERT
Commissioners

I CERTIFY THAT THIS DECISION WAS APPROVED BY THE ABOVE COMMISSIONERS TODAY

NEAL J. SHULMAN, Executive Director