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Decision 84 06 088 JUN 6 1984

ORIGINAL

BEFORE THE PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

Rulemaking on the Commission's own motion to establish standards for the processing of gas and electric offset rate cases and to revise the current schedule for filing such offset rate cases.	OII 82-09-02 (Petition for Modification filed December 2, 1983)

O P I N I O N

On February 16, 1983, the Commission issued Decision (D.) 83-02-076 adopting a new schedule for the filing of gas and electric offset applications. Southern California Edison Company (Edison) and Pacific Gas and Electric Company (PG&E) filed petitions for modification of D.83-02-076, which the Commission disposed of in D.83-11-019, dated November 2, 1983. Toward Utility Rate Normalization (TURN) now seeks to modify D.83-11-019.

TURN points to Conclusions of Law 12 and 15 of D.83-11-019, and argues that they are inconsistent. Those conclusions are as follows:

> "12. For trigger mechanism purposes, PG&E's fuel costs should be estimated for the 12-month period beginning with the February 1 revision date."
>
> * * *
>
> "15. The forecast period for the annual ECAC proceeding should be 12 months beginning on the revision date. For the triggered proceeding the forecast period should be six months."

The staff and PG&E filed responses to TURN's petition. They agree that the two conclusions of law are inconsistent, since Conclusion 12 requires a 12-month forecast period for the triggered proceeding while Conclusion 15 requires a 6-month forecast period for the triggered proceeding.

The staff and TURN agree that the forecast period for the triggered proceeding ought to be 6 months, while PG&E argues in favor of a 12-month forecast period.

Background

In D.83-02-076 the Commission adopted the staff's trigger mechanism proposal with no change and little discussion. The staff proposal included a sample calculation showing how the trigger would be computed. That sample calculation was quoted verbatim at mimeo. p. 34 of D.83-02-076 and is reproduced in the appendix to this opinion. Upon reviewing that sample calculation we cannot doubt that the staff advocated and the Commission adopted a 12-month forecast period for the trigger mechanism. The sample calculation at four distinct points assumes a 12-month forecast period, as follows:

1. Assumption 2 in this hypothetical states: "Fuel costs are estimated to remain unchanged for the next 12-month period, requiring a rate increase to offset further undercollection".

2. The diagram immediately following Assumption 2 defines "the next 12-month period" schematically as the 12 months beginning at the midpoint of the original ECAC test year.

3. The sample calculation goes on to show that $100 million will be needed "To offset fuel cost increases in the next 12 months".

4. The sample calculation concludes: "If fuel costs are projected to decrease in the next 12 months, then the trigger mechanism would not be activated".

Thus, in D.83-02-076 we adopted a 12-month forecast period for the trigger mechanism.

Following the issuance of D.83-02-076, PG&E and Edison filed petitions for modification of it. Edison did not seek modification or clarification of the forecast period for the trigger mechanism. However, Edison asked for clarification of the Commission's intent to use as a test year for the annual review application the 12-month period beginning on the revision date.

Although Conclusion 5[1] on mimeo. p. 40 of D.83-02-076 clearly established the Commission's intent, Edison sought assurance because of the change from the former practice of basing ECAC rates upon energy prices estimated to be in effect on the revision date.

The staff filed a response to the petitions for modification of PG&E and Edison in which it replied to each point they raised. As to Edison's item regarding the test period for the annual proceeding, the staff stated:

> "We agree that the forecast period for determining ECAC rates should be 12 months, beginning on the revision date, for the annual proceeding. Additionally, it should be six months for triggered proceedings". (Staff Response, filed August 10, 1983, at p. 4.)

The staff did not explain why it was necessary or reasonable to change from the 12-month forecast period advocated by it and adopted by the Commission in D.83-02-076. Moreover, the staff in the same written response had agreed to PG&E's proposal to define the 12-month fuel cost estimate used for the calculation of the trigger. PG&E proposed the following definition:

> "...the forecast period to be used is the 12-month period commencing with the February 1 revision date."[2] (PG&E's 3-16-83 petition, p. 8.)

The staff stated in reply to PG&E's proposed definition:

> "We agree with the following definitions to be applied to the trigger mechanism:"
>
> * * *
>
> "(b) The 12-month fuel cost estimate is for the 12-month period beginning with the February 1 revision date." (Staff response, p. 3.)

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1 "ECAC rates included in the annual review application should be based upon a 12-month future test period beginning on the revision date. Energy costs included in rates should be estimates of actual costs to be incurred during the test period."

2 The revision dates adopted for PG&E in D.83-02-076 were: Annual, August 1; semiannual, February 1. (Id., mimeo. p. 40.)

Despite the internal inconsistency of the staff response on the point at issue, the Commission recognized that "[f]or the purpose of calculating the trigger, staff and PG&E agree on the definition of '12-month fuel cost estimate' and on how the trigger should be calculated". (D.83-11-019, mimeo. p. 3.) And in Conclusion of Law 12 it reiterated what it had earlier recognized:

> "12. For trigger mechanism purposes, PG&E's fuel costs should be estimated for the 12-month period beginning with the February 1 revision date." (D.83-11-019, mimeo. p. 6.)

However, in Conclusion of Law 15 the Commission paraphrased the staff's response to Edison's petition regarding the forecast period for the annual proceeding. That paraphrase included the staff's anomalous and inconsistent second sentence regarding a 6-month forecast period for the triggered proceeding.

Discussion

We do not find in this recitation any basis for concluding that the forecast period for the semiannual proceeding should be 6 months rather than the 12 months period we adopted in D.83-02-076. At no point has the staff, either in its response to Edison's petition or in its response to TURN's petition, stated any facts or arguments in support of its position that the forecast period adopted in D.83-02-076 for the semiannual proceeding should be changed. TURN's sole argument is that, using a 12-month forecast, PG&E fell only $7 million short of activating the trigger. TURN alleges that:

> "On November 22, 1983, PG&E sent a letter to [the] Executive Director...and the parties to its annual review proceeding, reporting that no December 1 ECAC trigger filing would be tendered because the 5% threshold would not be exceeded. Compared to a trigger level of $187 million, the indicated increase was projected to be $180 million..." (TURN's petition, p. 3.)

TURN believes that the increase under a 6-month forecast would have been substantially smaller. It reasons that PG&E's current ECAC rates reflect above-normal hydro in the second half of

1983, whereas the 12-month forecast would have included essentially normal hydro in latter 1984. Therefore, PG&E's use of a 12-month forecast nearly resulted in reaching the trigger threshold.

PG&E, however, points out that TURN has emphasized only one factor, whereas many factors affect the trigger calculation. PG&E mentions several as follows:

1. Balancing account balances for electric utilities are often in the hundreds of millions of dollars. Amortizing these sums over six months, as the trigger mechanism provides, can change revenue requirements by hundreds of millions of dollars. These requirements could easily affect the operation of the trigger.
2. Changes in available resources and unit costs other than the changes caused by hydro can have an important effect on the change in the revenue requirement.
3. Fluctuations in demand can significantly affect the trigger calculation.

Because of the many variables that enter into calculating the trigger, it is not possible to say at this time whether 12-month or a 6-month forecast is more likely to activate the trigger. Certainly, neither TURN nor the staff has actually studied the problem; and we have had too little experience with the current schedule to obtain a sense of what is likely to occur in the future. While TURN makes much of the near miss achieved with the 12-month forecast, the fact is that no semiannual filing was tendered. We will decline to adopt TURN's recommendation that a 6-month forecast for the trigger filing be adopted, especially since there is no evidence in this record to suggest that the 6-month forecast is preferable to the adopted 12-month forecast.

Therefore, rather than changing the forecast period, we conclude that the simple remedy is to strike the anomalous, inconsistent, and unexplained second sentence in Conclusion of Law 15. That will be the order.

Conclusions of Law

1. D.83-11-019 should be modified to strike the second sentence in Conclusion of Law 15.

2. In all other respects the petition for modification of TURN should be denied.

O R D E R

IT IS ORDERED that:

1. D.83-11-019 is modified by striking the second sentence in Conclusion of Law 15.

2. In all other respects the petition for modification of Toward Utility Rate Normalization is denied.

This order becomes effective 30 days from today.

Dated JUN 6 1984, at San Francisco, California.

LEONARD M. GRIMES, JR.
President
VICTOR CALVO
DONALD VIAL
WILLIAM T. BAGLEY
Commissioners

Commissioner Priscilla C. Grew, being necessarily absent, did not participate

I CERTIFY THAT THIS DECISION
WA[illegible] ABOVE
CO[illegible]

Joseph E. Bodovitz, Executive Director

APPENDIX

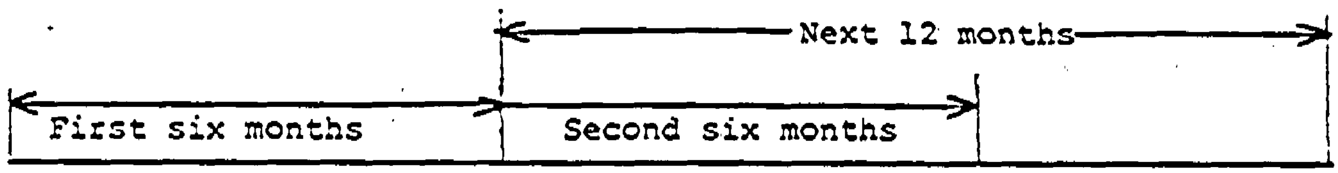
"Sample Calculation - Trigger Mechanism

Annual Revenue:	Base	=	$2 Billion	
	ECAC	=	2 Billion	(estimated)
	Total	=	$4 Billion	

Trigger Mechanism at 5% = $200 Million

Assume: 1) Fuel costs underestimated by $100 million/year; thus the balance in the balancing account is estimated to be undercollected by $50 million at the end of the first six months.

2) Fuel costs are estimated to remain unchanged for the next 12-month period, requiring a rate increase to offset further undercollection.



($50 million)

To amortize undercollection balance in second six months =	$100 million
To offset fuel cost increase in next 12 months =	$100 million
Trigger Mechanism at 5% = Total	$200 million

If fuel costs are projected to decrease in the next 12 months, then the trigger mechanism would not be activated."

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Insert (same #)

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1983, whereas the 12-month forecast would have included essentially normal hydro in latter 1984. Therefore, PG&E's use of a 12-month forecast nearly resulted in reaching the trigger threshold.

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1. Balancing account balances for electric utilities are often in the hundreds of millions of dollars. Amortizing these sums over six months, as the trigger mechanism provides, can change revenue requirements by hundreds of millions of dollars. These requirements could easily affect the operation of the trigger.
2. Changes in available resources and unit costs other than the changes caused by hydro can have an important effect on the change in the revenue requirement.
3. Fluctuations in demand can significantly affect the trigger calculation.

Because of the many variables that enter into calculating the trigger, it is not possible to say at this time whether 12-month or a 6-month forecast is more likely to activate the trigger. Certainly, neither TURN nor the staff has actually studied the problem; and we have had too little experience with the current schedule to obtain a sense of what is likely to occur in the future. While TURN makes much of the near miss achieved with the 12-month forecast, the fact is that no semiannual filing was tendered. ~~That a~~ 12-month forecast avoided a filing is no basis for abandoning the method we adopted so recently, ~~especially when there~~ is no evidence in this record to suggest that a 6-month forecast would work any better.

Insert

Therefore, rather than changing the forecast period, we conclude that the simple remedy is to strike the anomalous, inconsistent, and unexplained second sentence in Conclusion of Law 15. That will be the order.