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Decision 84 CS 124 AUG 7 1984**ORIGINAL**

BEFORE THE PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

Application of PACIFIC GAS AND)
 ELECTRIC COMPANY for authority,)
 among other things, to increase)
 its rates and charges for)
 electric and gas service.)
)
 (Electric and Gas))

Application 82-12-48
 (Filed December 20, 1982)

ORDER MODIFYING DECISIONS (D.) 84-05-100
AND 84-05-101 AND DENYING REHEARING

An application for rehearing of D.84-05-100 and 84-05-101 has been filed by Pacific Gas & Electric Company (PG&E). These decisions were rendered in response to certain prior applications for rehearing of D.83-12-068, which was our original decision in PG&E's most recent general rate case. D.84-05-100 and 84-05-101 denied rehearing but modified the disposition and rationale of D.83-12-068 in several respects. PG&E now challenges certain of these modifications through the present application for rehearing.

We turn first to PG&E's objection to D.84-05-101, and specifically to Ordering Paragraph 29, in which we directed, among other things, that PG&E include \$172,229,000 of Annual Energy Rate (AER) revenues in test year 1984 for determining the amount to be recorded under the Electric Revenue Adjustment Mechanism (ERAM). PG&E correctly notes that in D.83-08-048 we directed that AER revenues be removed from the ERAM. We will therefore modify the disposition in this case to be consistent with the policy announced in D.83-08-048.

We next turn to PG&E's objections to D.84-05-100. We have determined not to modify that decision but think that some further discussion is appropriate in light of those objections.

PG&E questions whether the gains allocated to ratepayers from the Utah coal sale should be returned within a year, when the recovery awarded PG&E for its other cancelled projects will be amortized over four years. We think the comparison is inappropriate. PG&E and its ratepayers are both receiving their respective share of the coal sale proceeds in test year 1984. This disposition is fair and internally consistent.

In D.84-05-100, we explained that utility shareholders generally bear the risk that a project must be cancelled but that ratepayers share in such risk during periods when the utility had to perform its project planning function under conditions of great uncertainty. PG&E correctly notes that relevant uncertainties are not limited to price/demand elasticity and fuel supply availability. However, our "uncertainty" exception to "used and useful" principles is not defined solely by questions of supply and demand. Our decision highlighted those questions because they were probably uppermost during the years immediately following the first oil embargo (1973) and ending only recently, but we also discussed other types of risks. (See D.84-05-100 at mimeo. pp. 4-5.) The key to a utility's justification of apportionment of project risk under the "uncertainty" exception is that the risks which the utility encountered, of whatever kind, must have been substantial, unavoidable, and significantly greater, both in their nature and degree, than the risks normally accompanying utility operations.

Before the first oil embargo, energy utilities and regulators both held more or less strongly a number of assumptions regarding energy and the economy: e.g., that strong economic growth depended on increasing energy use; that energy demand was

essentially inelastic to price; that Americans would not conserve voluntarily. Subsequent events have called such assumptions in question or even reversed them. Future years may challenge current assumptions, bringing the same or different uncertainties, but we require that utilities at least demonstrate risks of comparable magnitude to those experienced during the 1970's before we will allocate a share of project risk to ratepayers.

Therefore, good cause appearing,

IT IS ORDERED that D.83-12-068 is modified as follows:

1. Ordering Paragraph 17, which was added to D.83-12-068 by D.84-05-101, is modified to read:

"PG&E is authorized to record \$2,429,271,000 of California jurisdictional base rate revenues and ~~and \$172,229,000 of Annual Energy Rate revenues~~ in test year 1984 for the purposes of determining the amount to be recorded under the Electric Revenue Adjustment Mechanism."

IT IS FURTHER ORDERED that, with the changes indicated above, rehearing of D.83-12-068, as modified by D.84-05-100 and 84-05-101, is denied.

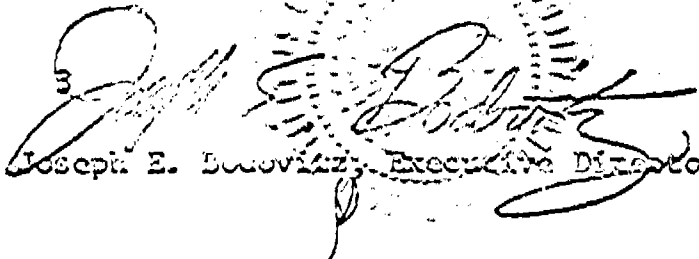
This order is effective today.

Dated AUG 7 1984 , at San Francisco, California.

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

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

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


Joseph E. Bonovizio, Executive Director