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Item 6
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Decision 88 05 029 ~~MAY 11~~ 1988

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BEFORE THE PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

Application of PACIFIC GAS AND ELECTRIC COMPANY For Authority To Adjust Its Rates To The Agricultural Customer Class Effective May 1, 1988. (U 39 E)	Application 88-03-038 (Filed March 17, 1988)

(For appearances see Appendix A.)

OPINION

Summary

By Decision (D.) 87-04-028, issued April 8, 1987, the Commission authorized Pacific Gas and Electric Company (PG&E) to establish a new set of agricultural rates to replace the then existing "PA" agricultural rates. The new agricultural rates, the "AG" series, were made available on an optional basis during 1987. Under the decision all agricultural accounts on PA time-of-use (TOU) rate schedules are required to transfer to an AG rate schedule by May 1, 1988. All other agricultural accounts are required to transfer to an AG rate schedule by November 1, 1988.

There is mounting concern that the AG rates authorized in D.87-04-028 will significantly increase the electric bills associated with many low load-factor agricultural accounts. In addition, some customers with many of these low load-factor accounts will have no incentive to move to a TOU rate under the new rate structure.

In order to mitigate the significant effects of the new agricultural rate structure on these customers, and in particular to make TOU rate options available to as many of them as possible, this decision grants PG&E authority to modify the rate structure by equalizing the demand charges for the AG-1, AG-R, AG-V, and AG-4 rate schedules.

The Commission notes that the granting of PG&E's request is not intended to and does not signal a lessening of the Commission's desire to move toward cost of service based rates. It does, however, reflect the Commission's concern that PG&E should move toward those cost based rates in a manner which is as fair and equitable as possible to all of PG&E's agricultural customers. Also, it reflects Commission policy of making viable TOU options available to the widest possible range of customers.

Procedural Summary

PG&E filed this application on March 17, 1988, requesting ex parte, expedited treatment of its proposal to modify the agricultural rates adopted by the Commission in D.87-04-028. On March 25, 1988, Division of Ratepayer Advocates (DRA) protested PG&E's proposed rate changes and request for ex parte treatment of its application. A one-day evidentiary hearing was held in San Francisco on April 8, 1988. PG&E, the California Farm Bureau Federation (Farm Bureau), the Association of California Water Agencies (ACWA), DRA and several of PG&E's agricultural customers participated in the evidentiary hearing. The proceeding was submitted upon filing of concurrent briefs on April 14, 1988.

Background

The current agricultural rate design was originally addressed in PG&E's Test Year 1987 rate case proceeding in the summer of 1986, when the Commission adopted cost-based rates as its policy. An additional hearing was held on January 22, 1987, to consider a stipulation by the parties, including PG&E, DRA, and the Farm Bureau, to the agricultural TOU rate structure. Although not a party to that stipulation, ACWA made an appearance at the hearing. On April 8, 1987, the Commission by D.87-04-028 adopted the current AG rate schedule, modifying the stipulation in order to mitigate customer bill impacts and to facilitate the transition to cost-based rates. That decision provided agricultural customers with a 12-month transition period from PA-TOU rate schedules to AG rate schedules, and required all non-TOU agricultural accounts to elect a TOU schedule by November 1, 1988, or default to AG-1. The 12-month transition period for PA-TOU accounts expires May 1, 1988.

However, concern was raised that under the AG rates many low load-factor accounts would be receiving significant bill increases. Also raised was the concern that because of the higher demand charges associated with the AG TOU rate schedules the customers having many of these low load-factor accounts will be unable to take advantage of TOU rates. Many of these customers have made significant investments within the last several years in order to take advantage of the earlier PA TOU rates. With no incentive to stay on a TOU rate under the AG rate schedules, these customers will have no way to recover the capital investments they have made.

In D.88-01-016, in PG&E's 1987 Energy Cost Adjustment Clause proceeding (ECAC) issued on January 13, 1988, the Commission ordered that issues relating to the implementation of the AG rates be considered in a workshop prior to their implementation. The workshop was held on March 8, 1988.

Before the workshop, on February 18, March 1, and March 3, PG&E and the Commission conducted three public meetings in Woodland, Fresno, and Red Bluff, respectively. The purpose of the meetings was to explain the rationale behind the new AG rates, and to solicit comments from agricultural customers concerning the AG rates. The concerns described above were voiced at each of the three meetings.

At the March 8 workshop, PG&E presented the rate proposal described in this application as a response to the concerns raised by the agricultural customers in the public meetings and elsewhere.

PG&E's Position

Taking the comments from the public meetings, PG&E developed a proposed adjustment to the AG rate schedules. The key to the PG&E proposal is the equalization of the demand charges on the TOU schedules AG-R, AG-V, and AG-4 with the demand charges on the flat-energy-rate schedule AG-1.

PG&E notes that as currently authorized, the demand charges on AG-R, AG-V, and AG-4 are approximately twice the demand charges on AG-1. (For example, the demand charge for the A series AG-R, AG-V, and AG-4 schedule is $2.65 per kW-month, while the A series AG-1 demand charge is $1.30 per kW-month.) According to PG&E, this difference is a major disincentive to the use of the TOU rates, especially for low load factor accounts. The savings a low load factor account realizes from the lower off-peak energy rate would not, in many cases, offset the higher demand charge.

PG&E contends that equalizing the demand charges removes this disincentive. If an account is able to shift load into the off-peak periods under one of the three schedules (AG-R, AG-V, or AG-4), then it can take advantage of a TOU rate. It is important to note, however, that there is a meter charge contained in AG-V, AG-R, and AG-4 which is not contained in AG-1. Because of this, PG&E believes that the very lowest load factor accounts may be better off on AG-1 even if their load can be shifted off-peak. Agricultural accounts will still see monthly demand charge increases from 60¢ (or in some cases even 0¢/ per kW) to $1.30 per kW.

PG&E proposes to adjust the energy rates under AG-R, AG-V, and AG-4, in order to help insure that the overall rate adjustment is revenue neutral. The differential between on-peak and off-peak prices is also increased relative to the differential in the currently authorized AG rates. The methodology used to develop the differentials is a standard one.

PG&E also proposes to make a minor modification to the meter charges on schedules AG-RA and AG-RB. The charges would be reduced from their present levels of $11.30 (AG-RA) and $8.40 (AG-RB) to $7.00 and $6.00, respectively. The proposed levels are the same as those for the AG-V and AG-4 charges, and reflect the fact that the same type of meter can be used for all three schedules. Because no customers have yet elected service on AG-RA or AG-RB, no refunds are necessary.

PG&E urges that its proposal be acted on promptly. Because of the May 1 and November 1, 1988 deadlines, PG&E submits that additional delay, with its associated uncertainty, should not be imposed on the agricultural class.

In order to allow PG&E time to inform agricultural customers of modifications to the AG rate schedules before any changes are implemented and to place their agricultural accounts on the AG schedules they choose, PG&E requests that the changes to the AG rates be made effective 45 days after the effective date of the Commission's decision.

<u>DRA's Position</u>

DRA strongly opposes PG&E's proposal for a number of reasons. First, DRA contends that no change is needed at this time. DRA believes that all agricultural customers have already had ample time to adjust to the AG rate schedules. DRA notes that the rate schedules in dispute were adopted one year ago by D.87-04-038 after a full evidentiary hearing. The very concerns raised in the present proceeding were raised and addressed in D.87-04-028. Although many customers have stayed on the PA-TOU rates, DRA contends that they have had clear notice that the PA-TOU rates would terminate on May 1, 1988.

Second, DRA objects to the hurried manner in which PG&E is attempting to radically modify the Commission-adopted AG rate schedules. DRA argues that PG&E now seeks to undo, based on a very sketchy record, what was accomplished in its Test Year 1987 general rate case and subsequent decisions. DRA contends that it has not had sufficient time in which to adequately analyze PG&E's proposal; nor did the one-day hearing held on nine days' notice provide sufficient time to develop a complete record on which to base a decision to retreat from the Commission-adopted agricultural rate schedules.

Further, according to DRA, there is no urgency which requires the Commission to modify the rates on an expedited basis. DRA argues that since few agricultural accounts will be affected by the implementation of the Commission-adopted rates until November 1988 when the PA-1 rates will be terminated, customers simply will not move to the new rate schedules until absolutely necessary. Thus DRA contends that consolidation of this application with PG&E's 1988 ECAC application, as contemplated by D.88-01-016, will provide an appropriate and timely forum to address the concerns of agricultural customers.

DRA takes exception to PG&E's contention that the Commission-adopted agricultural rates should be changed because they will increase the bills of low-load factor accounts, and because the customers with low-load factor accounts will have no incentive to switch to TOU rate schedules; and to PG&E's purported solution to this problem by slashing demand charges for TOU schedules by half. According to DRA, the evidentiary record does not support a conclusion that PG&E's proposal will achieve any of the goals it purports to address.

Although DRA recommends that action on PG&E's application be deferred to the ECAC, in the event the Commission decides it must act immediately in response to the concerns raised in this application, DRA has offered an alternative proposal. DRA's alternative, rather than providing an across-the-board slashing of TOU demand charges, offers agricultural customers a fourth TOU option from which to choose. According to DRA, its proposal preserves the move toward cost-based rates.

Lastly, DRA submits that if the Commission decides to adopt either DRA's alternative proposal or PG&E's proposal, a balancing account should be implemented to track any undercollection from the agricultural class. DRA contends that, as PG&E's own analysis of the potential response to its proposal indicates, adoption of the proposal could result in a significant revenue undercollection. DRA believes a tracking account is necessary to protect other customer classes from this potential shortfall.

Position of Farm Bureau

Farm Bureau believes that the PG&E proposal of setting demand charges for TOU schedules equal to demand charges for flat schedules will create an economical TOU schedule for almost every agricultural customer. Also, Farm Bureau notes that PG&E's request provides a revenue-neutral change in the rates which will permit the utility to retain load shifting which has occurred. Accordingly, Farm Bureau fully supports PG&E's application.

Farm Bureau points out PG&E seeks to adjust only a small portion of its schedules for its agricultural customers. Specifically, PG&E requests authority to adjust only Schedules AG-4, R, and V. No change is requested to AG-1, 5, 6, or any PA-designated agricultural schedule.

Farm Bureau completely opposes the DRA position. According to Farm Bureau, the alternative DRA rate proposal ignores all potential TOU customers who cannot fit within the standard TOU rate structure comprised of 6 hours on-peak and 18 hours off-peak Monday through Friday. Further, Farm Bureau argues that DRA's alternative is blind to the under-35-horsepower agricultural customers. According to Farm Bureau, DRA's proposal, which sets off-peak energy prices for under-35-horsepower customers at .07245 cents, does not create the proper relationship between off-peak and flat-rate charges to cause a shift of usage from flat rate to off-peak. Farm Bureau contends that DRA's proposal, if accepted, will have the opposite effect of moving existing under-35-horsepower agricultural customers from off-peak usage to flat rates. Simply put, Farm Bureau believes that DRA's proposal will do more harm than good for the under-35-horsepower customer.

According to Farm Bureau what is wrong with presently authorized agricultural rates is the steep increase in the demand charge to $2.60 or above on TOU rate schedules. This creates a noneconomic situation for most agricultural customers and the majority of agricultural customers will find that their most economical schedule will be a flat rate schedule.

Farm Bureau states that the recent workshops conducted by the Commission and PG&E, as well as reports Farm Bureau has received from its members, support the conclusion that the vast majority of agricultural customers now taking service under TOU schedules will no longer remain on these schedules if PG&E's proposal is denied. Farm Bureau argues that the denial of PG&E's application will create an immediate and dramatic movement from off-peak usage to on-peak usage for the agricultural class. Farm Bureau argues that such movement flies directly in the face of Commission policy on load shifting. Further, it creates an additional later-felt detriment to the agricultural class of a higher allocation of fixed costs.

Farm Bureau points out that PG&E has stated that approval of its proposal will make AG-4, R, and V the most economical rate schedules for an additional 24,564 agricultural customers. Farm Bureau believes the number is even higher. Which ever estimate is correct, Farm Bureau argues that the approval of PG&E's proposal will have an effect of creating additional load shifting by the agricultural class for the benefit of all ratepayers.

Farm Bureau states that many of the present TOU agricultural customers have spent a significant amount of additional capital to change their irrigation practices to allow them to accept TOU rates. These changes were made at the request and promotion of the schedules by the Commission and PG&E. Many customers made significant changes based upon pay-back periods which will no longer exist if PG&E's proposal is not approved. According to Farm Bureau these particular customers will be hurt twofold. First, they will not be able to recapture the capital investment they have made. Then, secondly, and probably more importantly, they will continue to be hurt because the new facilities they have put in service, which are significantly larger than their original facilities, now use less time to spread the same amount of water. This higher kW demand with the same kWh was necessary under previous TOU rates, but now is detrimental because it is directly contrary to the Commission's position of the more you use, the cheaper it is. Therefore, Farm Bureau argues that on the basis of fairness and equity alone, PG&E's proposal should be adopted.

Farm Bureau notes that Public Utilities (PU) Code § 744 requires electric utility companies to provide, in addition to their regular service, optional off-peak service, including TOU rates, to any agricultural producer. The TOU rate shall be composed of a two-part time-differentiated schedule consisting of on and off-peak rates. The rate for the service shall be at an appropriate discount from the system average rate but shall not be less than the cost of furnishing the service.

According to Farm Bureau the intent of PU Code § 744 was to create a two-part TOU rate that would be a viable economic alternative for each and every agricultural customer. The present authorized TOU rates for agriculture do not comply with the intent of PU Code § 744. Under the present authorized AG rate schedules there is no viable TOU rate option for lower consumption agricultural customers. As the rates presently stand, only customers who have significant load factors will find the menu of TOU rate schedules as possible options for service. However, the approval and implementation of PG&E's proposal will create a viable economic alternative for each and every agricultural customer on the PG&E system as outlined above. Farm Bureau contends that anything less, including DRA's alternative proposal, falls short of the intent of PU Code § 744.

Farm Bureau argues that PG&E's proposal is not a retreat from cost-based rates. Farm Bureau notes that PG&E's proposal carries a floor of $1.30 per kW of connected load for the demand cost. According to Farm Bureau this is a significant movement towards cost-based rates. Presently, demand charges range from zero to 60¢/kW. The movement of demand charges to a minimum of $1.30 is a movement of at least 100 percent towards cost-based rates. While it is true that the movement would not be as great as under the authorized rates, Farm Bureau believes that PG&E's proposal is still a very significant step towards cost-based rates.

With regard to DRA's alternative rate proposal, Farm Bureau submits that it falls short of the refinement necessary. According to Farm Bureau, DRA's proposal is simply a little bit less than one-third of PG&E's proposal. It is a new TOU schedule which looks like AG-4 as proposed by PG&E. However, one major difference between PG&E and DRA's proposal is that the PG&E off-peak to on-peak differential is set at four to one ratio, where DRA's is not. DRA's proposal sets the off-peak energy price so close to the flat rate that DRA's alternative is not attractive to any under-35-horsepower agricultural customer.

Further, Farm Bureau argues that DRA's proposal gives no consideration to agricultural customers who would take service either on a split week or less than six hour peak. Farm Bureau contends that for these customers there is no relief whatsoever, and as such there is no viable economic alternative. Farm Bureau notes that DRA's witness, under cross-examination, stated that it was his belief that under DRA's proposal customers who would have taken service under PG&E's AG-R and V proposals could shift their load and take service under DRA's alternative proposal. Farm

Bureau contends that this analysis is wrong and contrary to DRA's position in PG&E's last general rate case. According to Farm Bureau, customers who would take service under an AG-R schedule are doing so because they cannot fit within the standard 6 hours on-peak and 18 hours off-peak structure. These customers need long irrigation sets which AG-R provides them. And these customers need to irrigate continuously for more than one day at a time. Therefore, according to Farm Bureau, if AG-R as proposed by PG&E is not available, there is no way these customers could accept service under DRA's alternative. The same reasoning holds true according to Farm Bureau for customers who would accept service under PG&E's AG-V proposal.

Farm Bureau contends that in PG&E's last general rate case as well as in Southern California Edison Company's (Edison) last general rate case, DRA testified that it was necessary to have a menu of TOU options because of the diversity of agriculture. Now, according to Farm Bureau, DRA seeks to constrain the menu of options without any valid reason. Since DRA's proposal in this proceeding has the potential of helping only agricultural customers who would accept a standard TOU rate and are over-35-horsepower, Farm Bureau argues that DRA's proposal should be rejected, since it will do little or nothing to create any viable TOU options.

Turning to DRA's contention that there would be a revenue shortfall if PG&E's application is accepted, Farm Bureau notes that PG&E has testified that no revenue shortfall will develop. Farm Bureau argues that not only will a revenue shortfall not develop, an over-collection is almost a certainty. Farm Bureau submits that it is quite clear from recent weather patterns that agricultural pumping will be at a high this year. Winter sales are far above normal with many agricultural customers starting irrigation as early as the beginning of March. A quick survey of Farm Bureau members has found that many of them have begun their irrigation sooner and are running the pumps longer, creating unexpected sales in the off-peak and winter-season for PG&E. Farm Bureau points out that such unexpected sales will be to the benefit of the utility.

Further, Farm Bureau argues that whether PG&E's application is approved or not, all existing customers who are on PA-1 will remain on this schedule until November 1, 1988. The reason that these individuals will not shift, even if PG&E's application is approved, is because it is cheaper for them to remain on PA-1 than move to a TOU rate schedule. Therefore, Farm Bureau contends that there will not be a mass exodus from the PA rates, causing a revenue shortfall.

Farm Bureau submits that DRA's contention that once the new rates are implemented PG&E may under-collect is without merit. Farm Bureau agrees that any time a new rate structure is put into place, there is the potential it may under collect. Farm Bureau points out that rate schedules are based on historical data with future projections. It is an accepted fact that future projections do not exactly equal actual sales. Therefore, Farm Bureau argues that the potential for undercollection is not unusual and should not be cause for special concern.

Lastly, Farm Bureau states that during the Commission meetings held throughout the PG&E area, at the technical workshops which followed, and at the hearing on this application, it has become clear that all of agriculture--small, medium, and large--support the PG&E application.

Position of ACWA

ACWA supports PG&E's application without modification and urges expedited consideration and adoption by the Commission. According to ACWA, 1988 surface water supply conditions are some 65 percent below average, thus virtually assuring PG&E of significantly higher than average year sales. Accordingly, ACWA argues that no separate balancing account treatment for the agricultural class is warranted. ACWA submits that there is an equal likelihood that PG&E will collect too much revenue rather than too little.

ACWA contends that from the customer's perspective the major barrier to implementing cost effective conservation and load management (C&LM) programs is the demand structure and rates in the present rate design. ACWA notes that the Commission's expectation is that farmers use conservation and load management to mitigate increases in energy costs. Under the AG rate structure PG&E is proposing to replace, the most farmers could hope to achieve was to offset 3.6 percent of their energy costs through C&LM. PG&E's proposal will give farmers the opportunity to mitigate up to 10 percent of their energy cost increases, but only if they shift load from their current usage patterns.

According to ACWA, the urgency for the Commission to act favorably upon PG&E's application is evident since most farmers currently on PA-TOU rates would lose all incentives to maintain their load shift under current AG rates. ACWA believes that prompt Commission action will permit farmers to choose cost-effective C&LM/TOU options for the majority of their pumping this year. Also, ACWA points out that many more farmers will be able to respond effectively when asked by PG&E to choose an AG rate to replace their current PA rate prior to November.

ACWA therefore concludes that 1) the AG rate structure changes proposed by PG&E are needed to broaden the opportunity for farmers to take steps to control their ever-increasing energy costs, 2) from a farmer's perspective PG&E's proposed AG rates are much more useful and amenable to C&LM measures, and 3) no other PG&E customer classes' rates will be increased due to the revenue-neutral nature of the proposed rate structure change and the likely increase in agricultural class revenues for PG&E due to drought conditions.

In summary, it is ACWA's position that PG&E's rate proposal is revenue-neutral and will disadvantage no other PG&E

customers. Farmers would be sorely disadvantaged and limited if PG&E's proposed rates are not authorized by the Commisson.

Discussion

We will not repeat all the arguments of the parties but will simply conclude that, based on the comments received at the public meetings and at the workshop, the rate design adopted in D.87-04-028 has a severe impact on the low load-factor accounts. There is evidence to support a finding that in our desire to achieve cost-based rates, we have inadvertently caused a situation whereby a significant number of smaller agricultural customers, some of whom may have made major investments on equipment in order to shift load and benefit from TOU rates, will have no alternative but to shift to non-TOU rates by November 1, 1988.

The Commission's policy is to make TOU rates available to as many customers as possible, consistent with our goal of achieving cost-of-service based rates for all classes. Nevertheless, such movement to cost-based rates must be accomplished with the least possible hardship. And since it will be counterproductive to have customers now on TOU schedules to abandon TOU schedules when the new schedules come into full force on November 1, 1988, we conclude that some adjustment to certain schedules is necessary.

As discussed above, PG&E and DRA have offered rate proposals. Between the two proposasls, we conclude that the PG&E proposal better addresses the concerns raised. The PG&E proposal makes a viable TOU option available to more customers. Specifically it makes a viable TOU option available to customers whose usage patterns are best-suited to the AG-V or AG-R rate schedules. DRA's option, aside from the fact that it introduces two more agricultural rates, affords a TOU option only to those customers who can adapt their usage patterns to the AG-4 schedule. It addresses those accounts which can avoid the on-peak period on a daily basis, but it does not address the needs of the AG-V and AG-R customers.

With regard to DRA's recommendation that this matter be delayed to PG&E's 1988 ECAC proceeding, we conclude that the concerns raised in the February and March 1988 public meetings need to be addressed timely. The uncertainty surrounding AG rates should be laid to rest as quickly as possible and should not be allowed to fester until the Commission issues a decision in PG&E's 1988 ECAC proceeding in the fall, after the current growing season. By approving PG&E's proposal now, the Commission is taking a timely and practical step in addressing the concerns of the agricultural community and at the same time making progress towards cost-of-service based rates.

We now turn to DRA's recommendation that balancing account treatment should be introduced. PG&E's testimony is that the proposed rates are designed to be revenue neutral using standard ratemaking procedures. As noted by the parties, just as there is a possibility of undercollection, there is also support for a conclusion that there will be an overcollection.

We are generally reluctant to establish balancing accounts unless there is good cause. However, we are reminded that this proceeding was a limited review of PG&E's agricultural rates and it was handled on an expedited basis at the behest of the agricultural customers. Therefore, we would be derelict in our duty if we did not provide safeguards to ensure that rates to all customers are not increased, if there is an undercollection. The fact that this year is a dry year, with increased sales, does not necessarily protect the general body of ratepayers from the effects of nontest year changes in elements such as demand charges in a particular rate schedule. Therefore, because of the circumstances surrounding this proceeding, we conclude that a tracking account should be established.

PG&E has requested that there be 45 days before the PA TOU schedule termination and consequent movement to the AG schedules. According to PG&E the 45-day period is necessary to allow (1) PG&E to remind PA-Tou customers of the termination, (2) the customers to tell PG&E on which AG schedules to place their accounts, and (3) PG&E to reprogram meters, as necessary, in response to the customers' choices. PG&E's request is reasonable and should be granted.

Proposed Decision of the
Administrative Law Judge (ALJ)

Comments on the ALJ's proposed decision were received from PG&E, DRA, Farm Bureau, ACWA, and Industrial Users.

All parties addressed the ALJ recommendation for a one-way balancing account. Farm Bureau and ACWA strongly opposed the proposal. DRA and Industrial Users strongly supported the proposal. PG&E, while not in favor of the proposal, recommended that if the Commission decided that a class-specific tracking account was appropriate, then this should be accomplished through a memorandum account rather than a balancing account.

We are not persuaded by the arguments opposing the introduction of a tracking account. If, as PG&E, Farm Bureau, and ACWA contend an overcollection is virtually certain, they should have no fear about establishing a tracking account. And as DRA and Industrial Users point out, there should be safeguards in place given the expedited nature of this proceeding. Rather than a one-way balancing account as proposed by the ALJ, we will provide for a memorandum account. As pointed out by PG&E, a memorandum account will be easier to administer and will achieve the same result. This will ensure that the other customer classes do not suffer any burden due to undercollection, however unlikely, as a result of the rate design adopted in this decision.

Findings of Fact

1. A major agricultural rate change was ordered by D.87-04-028 and PG&E's customers are required to make a choice by November 1, 1988.

2. The AG rates authorized in D.87-04-028 for AG-R, AG-V, and AG-4 need to be modified because they contain significant disincentives which could cause low load factor customers to abandon TOU rates when they are forced to make a rate change on November 1, 1988.

3. PG&E and DRA submitted separate rate proposals in response to the concerns raised at the public meetings.

4. PG&E's rate proposal was presented at the March 8 workshop and parties had reasonable time to study it prior to the one-day hearing on April 8, 1988.

5. PG&E's proposal better responds to the concerns raised at the public meetings. First, equalizing demand charges between the TOU and the non-TOU schedules removes all disincentives to the selection of a TOU rate, except for the cost-based meter charge and a customer's own ability to shift load from the on-peak period. Second, the four-to-one differential between the summer on-peak and off-peak energy rates ensures that customers have an incentive to remain on a TOU schedule, allowing customers who have invested in equipment to take advantage of TOU rates to recapture their investment.

6. Since this proceeding was a limited review of PG&E's agricultural rates and was handled on an expedited basis at the behest of PG&E's agricultural customers, it is reasonable to establish a tracking account for PG&E's agricultural revenues following implementation of the rates authorized by this decision to ensure that rates to all customers are not increased if there is an undercollection.

7. A 45-day implementation period is needed before the (old) PA TOU schedule termination and movement to the (new) AG schedules.

8. There is need for expedited treatment of this application so that PG&E's agricultural customers can make informed choices before the November 1, 1988 deadline.

Conclusions of Law

1. PG&E's rate proposal as set forth in Appendix B should be adopted.

2. PU Code § 311(d) provides that with regard to proposed decisions prepared by the ALJ the parties may waive or shorten the 30-day review period by stipulation of all parties. In accord with the agreement reached at the April 8 hearing and in the interest of resolving PG&E's application as quickly as possible, a 10-day comment period for the ALJ's proposed decision is reasonable.

ORDER

IT IS ORDERED that:

1. Comments on the Administrative Law Judge's proposed decision shall be filed no later than 10 days after the date of its mailing to the parties. There shall be no reply comments.

2. Pacific Gas and Electric Company (PG&E) is authorized to file with this Commission on or after the effective date of this order, revised tariff schedules for electric rates which are in accordance with this decision.

3. The revised tariff schedules shall become effective no earlier than 45 days after the effective date of this order, and shall comply with General Order 96-A. The tariffs shall apply to service rendered on or after their effective date.

4. PG&E shall establish a memorandum account for the purpose of tracking the difference between authorized revenue for the agricultural class and actual revenue. The memorandum account shall commence from the date that the rates authorized by this

decision are implemented. It shall terminate when the Commission next adopts a new revenue allocation for PG&E.

5. The reference revenue used to determine the monthly entries to the memorandum account will be the agricultural revenue allocation adopted in D.87-12-068. The monthly estimates will be determined by allocating the annual revenue requirement to specific months based on monthly percentages from the agricultural sales forecast adopted in PG&E's last Energy Cost Adjustment Clause case.

6. Any shortfall in revenue as recorded shall be recovered from the agricultural class at the time of termination of the memorandum account. The amount of this shortfall will be subtracted from the revenue allocated to all other customer classes. Any overcollection as recorded in the memorandum account shall be disregarded for purposes of revenue allocation, since it will already have been captured in the Electric Revenue Adjustment Mechanism balance.

7. PG&E is authorized to increase the rates set forth in Appendix B to reflect any revenue increase related to Diablo Canyon Power Plant in A.84-06-014, which is being concurrently considered by the Commission.

8. This proceeding is closed.

This order is effective today.

Dated MAY 11 1988, at San Francisco, California.

STANLEY W. HULETT
President
DONALD VIAL
FREDERICK R. DUDA
G. MITCHELL WILK
JOHN B. OHANIAN
Commissioners

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

Victor Weisser, Executive Director

APPENDIX A

List of Appearances

Applicant: Mark R. Huffman, Attorney at Law, for Pacific Gas and Electric Company.

Interested parties: William F. Borror, for California State Board of Food and Agriculture; Daryl Brun, for Blue Diamond Growers; Downey, Brand, Seymour & Rohwer, by Debbie Tellier and Philip A. Stohr, Attorneys at Law, for Industrial Users; Jeff Fabbri, for Power Users Protection Council; Steven Geringer, Attorney at Law, for California Farm Bureau Federation; Robert Hennigan and Sam Lewis Jr., for themselves; Ken Lindauer, for Tehama County Farm Bureau; Donald G. Salow, for Association of California Water (ACWA); Jeff Scharff, Attorney at Law, for Citrus Mutual; and Tony Wong, for the California Energy Commission.

Commission Staff: Carol L. Matchett and Hallie Yacknin, Attorneys at Law.

(END OF APPENDIX A)

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PACIFIC GAS AND ELECTRIC COMPANY

AUTHORIZED AND PROPOSED AGRICULTURAL RATES *

SERIES A - LESS THAN 35 KW

	AG-1A AUTHORIZED RATES	AG-1A PROPOSED RATES	AG-RA AUTHORIZED RATES	AG-RA PROPOSED RATES	AG-VA AUTHORIZED RATES	AG-VA PROPOSED RATES	AG-4A AUTHORIZED RATES	AG-4A PROPOSED RATES	AG-5A AUTHORIZED RATES	AG-5A PROPOSED RATES	AG-6A AUTHORIZED RATES	AG-6A PROPOSED RATES
CUSTOMER CHARGE ($/MONTH)	$7.50	$7.50	$7.50	$7.50	$7.50	$7.50	$7.50	$7.50	$7.50	$7.50	$7.50	$7.50
METER CHARGE ($/MONTH)	$.00	$.00	$11.30	$7.00	$7.00	$7.00	$7.00	$7.00	$7.00	$7.00	$.00	$.00
CONNECTED LOAD CHARGE ($/KW-MONTH)	$1.30	$1.30	$2.65	$1.30	$2.65	$1.30	$2.65	$1.30	$3.45	$3.45	$3.45	$3.45
SUMMER ON-PEAK ENERGY ($/KWH)	$.09537	$.09537	$.12865	$.21162	$.12635	$.20329	$.12499	$.19086	$.11033	$.11033	$.05723	$.05723
SUMMER OFF-PEAK ENERGY ($/KWH)	$.09537	$.09537	$.05146	$.05251	$.05054	$.05044	$.05000	$.04736	$.04413	$.04413	$.05723	$.05723
WINTER PART-PEAK ENERGY ($/KWH)	$.09537	$.09537	$.05300	$.05409	$.05206	$.05196	$.05150	$.04878	$.04545	$.04545	$.03911	$.03911
WINTER OFF-PEAK ENERGY ($/KWH)	$.09537	$.09537	$.04065	$.04779	$.03993	$.04590	$.03949	$.04310	$.03487	$.03487	$.03911	$.03911
RATE LIMITER ($/KWH)	$.71509	$.71509	$.71509	$.71509	$.71509	$.71509	$.71509	$.71509	$.71509	$.71509	$.71509	$.71509
MINIMUM BILL ($/KW-YEAR)	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	$120.00	$120.00	$120.00	$120.00

SERIES B - GREATER THAN 35 KW

	AG-1B AUTHORIZED RATES	AG-1B PROPOSED RATES	AG-RB AUTHORIZED RATES	AG-RB PROPOSED RATES	AG-VB AUTHORIZED RATES	AG-VB PROPOSED RATES	AG-4B AUTHORIZED RATES	AG-4B PROPOSED RATES	AG-5B AUTHORIZED RATES	AG-5B PROPOSED RATES	AG-6B AUTHORIZED RATES	AG-6B PROPOSED RATES
CUSTOMER CHARGE ($/MONTH)	$7.50	$7.50	$7.50	$7.50	$7.50	$7.50	$7.50	$7.50	$7.50	$7.50	$7.50	$7.50
METER CHARGE ($/MONTH)	$.00	$.00	$8.40	$6.00	$6.00	$6.00	$6.00	$6.00	$6.00	$6.00	$.00	$.00
SUMMER MAXIMUM DEMAND CHARGE ($/KW-MONTH)	$1.60	$1.60	$3.20	$1.60	$3.20	$1.60	$3.20	$1.60	$4.75	$4.75	$4.75	$4.75
WINTER MAXIMUM DEMAND CHARGE ($/KW-MONTH)	$1.05	$1.05	$2.10	$1.05	$2.10	$1.05	$2.10	$1.05	$3.20	$3.20	$3.20	$3.20
SUMMER PEAK DEMAND CHARGE ($/KW-MONTH)	$.00	$.00	$1.25	$1.25	$1.25	$1.25	$1.25	$1.25	$2.25	$2.25	$.00	$.00
SUMMER ON-PEAK ENERGY ($/KWH)	$.08262	$.08262	$.07420	$.22760	$.07136	$.21345	$.06944	$.18042	$.04131	$.04131	$.04004	$.04004
SUMMER OFF-PEAK ENERGY ($/KWH)	$.08262	$.08262	$.05850	$.05650	$.05629	$.05297	$.05516	$.04477	$.03303	$.03303	$.04004	$.04004
WINTER PART-PEAK ENERGY ($/KWH)	$.08262	$.08262	$.06026	$.05819	$.05797	$.05456	$.05681	$.04611	$.03403	$.03403	$.03275	$.03275
WINTER OFF-PEAK ENERGY ($/KWH)	$.08262	$.08262	$.04621	$.05141	$.04447	$.04820	$.04358	$.04074	$.03006	$.03006	$.03275	$.03275
RATE LIMITER ($/KWH)	$.71509	$.71509	$.71509	$.71509	$.71509	$.71509	$.71509	$.71509	$.71509	$.71509	$.71509	$.71509
MINIMUM BILL ($/KW-YEAR)	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	$109.00	$109.00	$109.00	$109.00

ENERGY CHARGES FOR THREE TOU PERIOD VERSIONS OF AG-4B AND AG-5B

	AG-4C		AG-5C	
SUMMER ON-PEAK ENERGY ($/KWH)	$.06944	$.17622	$.04131	$.04131
SUMMER PART-PEAK ENERGY ($/KWH)	$.06755	$.06059	$.04041	$.04041
SUMMER OFF-PEAK ENERGY ($/KWH)	$.05066	$.03821	$.03031	$.03031
WINTER PART-PEAK ENERGY ($/KWH)	$.05681	$.04611	$.03403	$.03403
WINTER OFF-PEAK ENERGY ($/KWH)	$.04358	$.04074	$.03006	$.03006

* AUTHORIZED RATES WERE ADOPTED IN DECISIONS 87-12-068 (DECEMBER 22, 1987) AND 88-03-007 (MARCH 9, 1988).

TABLE 2

PACIFIC GAS AND ELECTRIC COMPANY

DISTRIBUTION OF PA CUSTOMERS TO THEIR BEST AG SCHEDULE

	AG-1		AG-TOU (AG-R, AG-V, AG-4)		AG-5, AG-6		TOTAL	
	AUTHORIZED RATES	PROPOSED RATES	AUTHORIZED RATES	PROPOSED RATES	AUTHORIZED RATES	PROPOSED RATES	AUTHORIZED RATES	PROPOSED RATES
NUMBER OF PA-1A ACCOUNTS	42,537	29,276	11,808	25,828	14,059	13,300	68,404	68,404
AVERAGE $ CHANGE	$215	$172	$268	$182	$-179	$-194	$143	$104
AVERAGE % CHANGE	70.10%	109.20%	16.45%	16.47%	-9.20%	-9.80%	16.40%	12.00%
AVERAGE HOURS OPERATION	261	175	900	677	1,992	2,039	727	727
NUMBER OF PA-3 ACCOUNTS	94	80	92	110	10	6	196	196
AVERAGE $ CHANGE	$176	$136	$202	$6	$-687	$-859	$144	$33
AVERAGE % CHANGE	137.60%	360.00%	12.86%	.41%	-19.10%	-19.50%	14.70%	3.30%
AVERAGE HOURS OPERATION	33	9	629	630	2,083	1,870	417	417
NUMBER OF PA-4A ACCOUNTS	292	67	780	1,105	120	20	1,192	1,192
AVERAGE $ CHANGE	$286	$118	$331	$97	$175	$-368	$317	$90
AVERAGE % CHANGE	49.40%	45.90%	25.59%	7.59%	8.90%	-11.90%	25.70%	7.30%
AVERAGE HOURS OPERATION	314	92	978	991	2,543	2,903	973	973
SERIES A SUBTOTAL ACCOUNTS	42,923	29,423	12,680	27,043	14,189	13,326	69,792	69,792
NUMBER OF PA-1B ACCOUNTS	13,781	7,215	3,562	11,019	10,116	9,225	27,459	27,459
AVERAGE $ CHANGE	$568	$493	$328	$64	$-3,578	$-3,882	$-991	$-1,149
AVERAGE % CHANGE	28.40%	47.40%	5.01%	1.40%	-28.10%	-29.20%	-15.10%	-17.50%
AVERAGE HOURS OPERATION	371	196	1,093	800	2,228	2,310	1,149	1,149
NUMBER OF PA-2 ACCOUNTS	2,563	1,008	889	2,656	863	651	4,315	4,315
AVERAGE $ CHANGE	$788	$313	$544	$7	$-9,904	$-12,782	$-1,401	$-1,851
AVERAGE % CHANGE	49.20%	46.10%	9.77%	.19%	-32.80%	-34.60%	-17.20%	-22.80%
AVERAGE HOURS OPERATION	311	125	1,000	728	2,309	2,490	853	853
NUMBER OF PA-R ACCOUNTS	145	48	148	253	87	79	380	380
AVERAGE $ CHANGE	$1,387	$773	$-9	$114	$-3,041	$-3,451	$-170	$-544
AVERAGE % CHANGE	53.60%	50.70%	-.23%	2.90%	-27.30%	-30.10%	-3.30%	-10.40%
AVERAGE HOURS OPERATION	388	198	746	672	2,011	2,053	899	899
NUMBER OF PA-4B ACCOUNTS	615	52	505	1,378	411	101	1,531	1,531
AVERAGE $ CHANGE	$1,326	$296	$1,902	$243	$-78	$-3,033	$1,139	$29
AVERAGE % CHANGE	52.60%	17.00%	40.30%	4.90%	-70.00%	-22.50%	21.00%	.50%
AVERAGE HOURS OPERATION	447	154	974	966	2,061	2,726	1,054	1,054
SERIES B SUBTOTAL ACCOUNTS	17,104	8,323	5,104	15,306	11,477	10,056	33,685	33,685
TOTAL ACCOUNTS	60,027	37,746	17,784	42,349	25,666	23,382	103,477	103,477

(END OF APPENDIX B)

PG&E's Position

Taking the comments from the public meetings, PG&E developed a proposed adjustment to the AG rate schedules. The key to the PG&E proposal is the equalization of the demand charges on the TOU schedules AG-R, AG-V, and AG-4 with the demand charges on the flat-energy-rate schedules AG-1.

PG&E notes that as currently authorized, the demand charges on AG-R, AG-V, and AG-4 are approximately twice the demand charges on AG-1. (For example, the demand charge for the A series AG-R, AG-V, and AG-4 schedule is $2.65 per kW-month, while the A series AG-1 demand charge is $1.30 per kW-month.) According to PG&E, this difference is a major disincentive to the use of the TOU rates, especially for low load factor accounts. The savings a low load factor account realizes from the lower off-peak energy rate would not, in many cases, offset the higher demand charge.

PG&E contends that equalizing the demand charges removes this disincentive. If an account is able to shift load into the off-peak periods under one of the three schedules AG-R, AG-V, or AG-4 then it can take advantage of a TOU rate. It is important to note, however, that there is a meter charge contained in AG-V, AG-R, and AG-4 which is not contained in AG-1. Because of this, PG&E believes that the very lowest load factor accounts may be better off on AG-1 even if their load can be shifted off-peak. Agricultural accounts will still see monthly demand charge increases from 60¢ (or in some cases even 0¢/ per kW) to $1.30 per kW.

PG&E proposes to adjust the energy rates under AG-R, AG-V, and AG-4, in order to help insure that the overall rate adjustment is revenue neutral. The differential between on-peak and off-peak prices is also increased relative to the differential in the currently authorized AG rates. The methodology used to develop the differentials is a standard one.

in the off-peak and off-season for PG&E. Farm Bureau points out that such unexpected sales will be to the benefit of the utility.

Further, Farm Bureau argues that whether PG&E's application is approved or not, all existing customers who are on PA-1 will remain on this schedule until November 1, 1988. The reason that these individuals will not shift, even if PG&E's application is approved, is because it is cheaper for them to remain on PA-1 than move to a TOU rate schedule. Therefore, Farm Bureau contends that there will not be a mass exodus from the PA rates, causing a revenue shortfall.

Farm Bureau submits that DRA's contention that once the new rates are implemented PG&E may under-collect is without merit. Farm Bureau agrees that any time a new rate structure is put into place, there is the potential it may under collect. Farm Bureau points out that rate schedules are based on historical data with future projections. It is an accepted fact that future projections do not exactly equal actual sales. Therefore, Farm Bureau argues that the potential for undercollection is not unusual and should not be cause for special concern.

Lastly, Farm Bureau states that during the Commission meetings held throughout the PG&E area, at the technical workshops which followed, and at the hearing on this application, it has become clear that all of agriculture--small, medium, and large--supports the PG&E application.

Position of ACWA

ACWA supports PG&E's application without modification and urges expedited consideration and adoption by the Commission. According to ACWA, in 1988 surface water supply conditions are some 65 percent below average, thus virtually assuring PG&E of significantly higher than average year sales. Accordingly, ACWA argues that no separate balancing account treatment for the agricultural class is warranted. ACWA submits that there is an daily basis, but it does not address the needs of the AG-V and AG-R customers.

With regard to DRA's recommendation that this matter be delayed to PG&E's 1988 ECAC proceeding, we conclude that the concerns raised in the February and March 1988 public meetings need to be addressed timely. The uncertainty surrounding AG rates should be laid to rest as quickly as possible and should not be allowed to fester until the Commission issues a decision in PG&E's 1988 ECAC proceeding in the fall, after the current growing season. By approving PG&E's proposal now, the Commission is taking a timely and practical step in addressing the concerns of the agricultural community and at the same time making progress towards cost-of-service based rates.

We now turn to DRA's recommendation that balancing account treatment should be introduced. PG&E's testimony is that the proposed rates are designed to be revenue neutral using standard ratemaking procedures. As noted by the parties, just as there is a possibility of undercollection, there is also support for a conclusion that there will be an overcollection.

We are generally reluctant to establish balancing accounts unless there is good cause. However, we are reminded that this proceeding was a limited review of PG&E's agricultural rates and it was handled on an expedited basis at the behest of the agricultural customers. Therefore, we would be derelict in our duty if we did not provide safeguards to ensure that rates to all customers are not increased, if there is an undercollection. Revenue allocations are made in general rate cases on a test-year basis. The fact that this year is a dry year, with increased rates, does not necessarily protect the general body of ratepayers from the effects of nontest year changes in elements such as demand charges in a particular rate schedule. We have had such balancing accounts for three customer classes in Edison's general rate case proceeding. Therefore, because of the circumstances surrounding this proceeding, we conclude that a one-way balancing account should be established.

PG&E has requested that there be 45 days before the PA TOU schedule termination and consequent movement to the AG schedules. According to PG&E the 45-day period is necessary to allow (1) PG&E to remind PA-Tou customers of the termination, (2) the customers to tell PG&E on which AG schedules to place their accounts, and (3) PG&E to reprogram meters, as necessary, in response to the customers' choices. PG&E's request is reasonable and should be granted.

Findings of Fact

1. A major agricultural rate change was ordered by D.87-04-028 and PG&E's customers are required to make a choice by November 1, 1988.

2. The AG rates authorized in D.87-04-028 for AG-R, AG-V, and AG-4 need to be modified because they contain significant disincentives which could cause low load factor customers to abandon TOU rates when they are forced to make a rate change on November 1, 1988.

3. PG&E and DRA submitted separate rate proposals in response to the concerns raised at the public meetings.

4. PG&E's rate proposal was presented at the March 8 workshop and parties had reasonable time to study it prior to the one-day hearing on April 8, 1988.

5. PG&E's proposal better responds to the concerns raised at the public meetings. First, equalizing demand charges between the TOU and the non-TOU schedules removes all disincentives to the selection of a TOU rate, except for the cost-based meter charge and a customer's own ability to shift load from the on-peak period. Second, the four-to-one differential between the summer on-peak and off-peak energy rates ensures that customers have an incentive to remain on a TOU schedule, allowing customers who have invested in

equipment to take advantage of TOU rates to recapture their investment.

6. Since this proceeding was a limited review of PG&E's agricultural rates and was handled on an expedited basis at the behest of PG&E's agricultural customers and to ensure that rates to all customers are not increased if there is an undercollection, it is reasonable to establish a one-way balancing account for PG&E's agricultural revenues following implementation of the rates authorized by this decision.

7. A 45-day implementation period is needed before the (old) PA TOU schedule termination and movement to the (new) AG schedules.

8. There is need for expedited treatment of this application so that PG&E's agricultural customers can make informed choices before the November 1, 1988 deadline.

Conclusions of Law

1. PG&E's rate proposal as set forth in Appendix B should be adopted.

2. PU Code § 311(d) provides that with regard to proposed decisions prepared by the ALJ the parties may waive or shorten the 30-day review period by stipulation of all parties. In accord with the agreement reached at the April 8 hearing and in the interest of resolving PG&E's application as quickly as possible, a 10-day comment period for the ALJ's proposed decision is reasonable.

ORDER

IT IS ORDERED that:

1. Comments on the Administrative Law Judge's proposed decision shall be filed no later than 10 days after the date of its mailing to the parties. There shall be no reply comments.

2. Pacific Gas & Electric Company (PG&E) is authorized to file with this Commission on or after the effective date of this

order, revised tariff schedules for electric rates which are in accordance with this decision.

3. The revised tariff schedules shall become effective 3 days after the date of filing but not earlier than 45 days after the effective date of this order, and shall comply with General Order 96-A. The tariffs shall apply to service rendered on or after their effective date.

4. PG&E shall establish a tracking mechanism to ensure that any shortfall in agricultural revenues shall not fall into the systemwide Electric Revenue Adjustment Mechanism (ERAM) balancing account, thus increasing rates to all customers. The tracking mechanism shall commence from the date that the rates authorized by this decision are implemented. It shall terminate with the next PG&E general rate case comprehensive rate design decision or sooner. Any shortfall in revenue shall be recovered from the agricultural class at the earliest opportunity. Any over-collection shall be credited to ERAM at the time of termination of the tracking mechanism.

5. This proceeding is closed.

This order is effective today.

Dated ______________________, at San Francisco, California.