

[SEP 15 1988]

Decision 88 09 036 SEP 14 1988

BEFORE THE PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

ORIGINAL

Application of PACIFIC GAS AND ELECTRIC COMPANY for Commission Order Finding that PG&E's Gas and Electric Operations During the Reasonableness Review Period from February 1, 1987 to January 31, 1988, Were Prudent.

Application 88-04-020 (Filed April 7, 1988)

Application of PACIFIC GAS AND ELECTRIC COMPANY for Authority to Adjust Its Electric Rates Effective August 1, 1988.

Application 88-04-057 (Filed April 21, 1988)

OPINION

On May 16, 1988, Pacific Gas and Electric Company (PG&E) filed a motion to suspend the Annual Energy Rate (AER) mechanism and to recover the difference between AER revenues and AER expenses in the Energy Cost Adjustment Clause (ECAC) balancing account until the date of any rate revision resulting from this proceeding.

When it filed its motion, PG&E was concerned that the Commission would not be able to issue its order in the forecast phase of this proceeding on or before the revision date of August 1, 1988. This concern has been borne out, and the complexity of this case makes it unlikely that a rate decision will be issued for several more months.

This delay, PG&E argues, will almost certainly result in losses for PG&E. Because of low rainfall in 1988, PG&E will not have as much cheap hydroelectric energy available to it after the August 1 revision date. Unless the AER is suspended, however, the existing AER rate, which was based on the costs that were forecasted for August 1, 1987, through July 1, 1988, will remain in effect. The forecast that underlies the existing AER rate assumed

more hydroelectric generation than is expected for the coming year. PG&E must replace some of the forecasted hydroelectric energy with more expensive sources of generation or with purchased power. Under the AER, 9% of any costs above forecasted costs are borne by PG&E. PG&E calculates that its loss will amount to about \$860,000 per month.

The AER is designed to provide utilities with an incentive to manage fuel costs efficiently during the forecast period, PG&E states. When costs are rising and the ECAC decision is delayed beyond the end of the forecast period, however, the AER acts to penalize PG&E, not because of its actions or inactions, but merely because the cost of fuel exceeds the authorized revenues for the previous forecast period, according to PG&E.

In addition, PG&E argues that the recent requirement that 30 days elapse between the issuance of the proposed decision of the Administrative Law Judge and the Commission's decision has made it even more difficult for the Commission to issue its decision before the revision date.

Since the existing AER rate is out of date and will almost certainly result in a loss for the utility, PG&E asks the Commission to suspend the AER. The suspension of the AER until a new rate order comes out assures that PG&E will neither gain nor lose unfairly for the months for which AER expenses have not been estimated and AER rates have not been set. PG&E therefore proposes that the AER be suspended and that any revenue shortfall or overcollection be placed in the ECAC balancing account.

Santa Fe Geothermal, Inc., Union Oil Company of California, and Freeport McMoran Resource Partners (Santa Fe) filed an opposition to PG&E's motion on June 2, 1988. Santa Fe agrees that PG&E should be granted some relief because of the delay in issuing a rate decision before the revision date. However, Santa Fe does not believe that that relief should take the form of a complete suspension of the AER. Rather, Santa Fe believes that the

AER mechanism should be applied on the assumption that the estimated expenses and revenues in PG&E's application are correct. This action would maintain the AER's incentives, according to Santa Fe, and would remove the risk that forecasted expenses are too low.

Santa Fe believes that an additional purpose of the AER is to give utilities an incentive to make accurate forecasts of expenses and revenues. The ECAC forecast is a crucial component of the calculation of incremental energy rates, which in turn are an important determinant of the amount paid to qualifying facilities (QFs). By employing the forecasted expenses and revenues of PG&E's application as a basis for an interim AER rate, the Commission would assure that PG&E would not benefit unfairly by understating key elements of the energy prices paid to QFs.

The Division of Ratepayer Advocates (DRA) filed its response to PG&E's motion on June 6, 1988. DRA believed that it could not make a recommendation on PG&E's motion until it had had a chance to complete its analysis of PG&E's application. At that time, DRA believed that if it recommended a very slight change in PG&E's rates, the resulting expected loss to PG&E would not warrant suspension of the AER. DRA also submitted that the question whether to suspend the AER should be decided only after related factual matters had been addressed in hearings.

We will grant PG&E's motion and temporarily suspend the operation of the AER. We agree that the prospects for hydroelectric generation make it almost certain that PG&E will unfairly sustain losses merely because the basis for current AER rates is out of date. The new schedule for ECAC cases (the subject of R.87-11-012) should make it possible to issue rate orders before the revision dates in future ECACs, so we hope that this problem will not arise in the future. For this year, however, PG&E was the victim of a schedule that was not designed to take into account new statutory requirements and added complexities. The resulting delay in the issuance of a rate revision decision, combined with a

drought year, would almost surely lead to losses to PG&E even if it had acted blamelessly in its management of fuel costs. ✓

Santa Fe has presented an intriguing alternative to complete suspension. However, questions about the legal basis for making a change in rates based only on a pleading, and not on any evidence, persuade us not to adopt Santa Fe's alternative.

Findings of Fact

1. PG&E filed a "Motion for Adoption of Balancing Account Treatment for All ECAC/AER Expenses and Revenues for the Period Between the Beginning of PG&E's 1988-1989 ECAC/AER Forecast Period and the Effective Date of any Rate Change Adopted in Application No. 88-04-057" on May 16, 1988. Santa Fe filed its opposition to the motion on June 2, 1988, and DRA filed its response to the motion on June 6, 1988.

2. The expected amount of hydroelectric generation available to PG&E for the forecast period is less than forecasted when the current AER rate was established.

3. New statutory requirements and added complexities have made it certain the rate revision will be delayed for several months after the revision date of August 1, 1988.

Conclusions of Law

1. Because of an unusual combination of circumstances, PG&E unfairly faces almost certain losses if the current AER rate remains in effect.

2. PG&E's AER should be suspended until further order of the Commission.

3. The difference between AER revenues and AER expenses from the effective date of the revised tariff sheets implementing this decision and the effective date of an order in this proceeding reinstating the AER should be recorded in the ECAC balancing account.

O R D E R

IT IS ORDERED that:

1. The operation of the Annual Energy Rate (AER) for Pacific Gas and Electric Company (PG&E) shall be suspended until further order of the Commission.

2. Any difference between AER revenues and AER expenses between the effective date of the revised tariff sheets implementing this decision and the effective date of an order in this proceeding reestablishing the AER shall be recorded in PG&E's Energy Cost Adjustment Clause balancing account.

3. PG&E is authorized to file revised tariff sheets implementing this order. The revised tariff sheets will become effective five days after filing.

This order is effective today.

Dated SEP 14 1988, at San Francisco, California.

STANLEY W. HULETT
President

DONALD VIAL
FREDERICK R. DUDA
G. MCCHELL WILK
JOHN B. OHANIAN
Commissioners

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


Victor Weiss, Executive Director

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