

Decision 88-12-041 December 9, 1988

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BEFORE THE PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

Rulemaking Proceeding on the)
 Commission's Own Motion to Revise)
 Electric Utility Ratemaking)
 Mechanisms in Response to Changing)
 Conditions in the Electric Industry.)

I.86-10-001
 (Filed October 1, 1986)
 Mailed

DEC 12 1988

INTERIM OPINION

Many of the active parties to this proceeding have arrived at a stipulation on some broad issues affecting the scope and direction of this case. A notice of the stipulation, required by Rule 51.1(b) of the Commission's Rules of Practice and Procedure, was mailed to all parties on October 20, 1988. The conference for discussing the details of the stipulation was held in conjunction with the prehearing conference of October 27, 1988. On November 1, 1988, the Commission's Division of Ratepayer Advocates (DRA) filed a motion requesting the Commission to adopt the stipulation, as allowed under Rule 51.1(c).

Under Rule 51.4, parties not expressly joining in the stipulation have 30 days from the date of mailing the stipulation to file and serve comments "contesting all or part of the stipulation." No party filed comments on the stipulation within the period allowed in the rules.

The stipulation has four points.

First, it concludes that "the likely level of any future uneconomic bypass can be dealt with under current procedures" without developing different treatment for a newly created less restricted class (LRC) of large customers.

Second, the stipulation states that segregating the LRC for different treatment requires "a very complex ratemaking structure with potentially conflicting incentives," and the parties recommend that the Commission not pursue its development of the separate LRC.

Third, the stipulation requests an opportunity to file written comments on refocusing this proceeding. The Commission would issue a decision on the direction of this proceeding after receiving and analyzing the comments.

Fourth, the stipulation proposes to continue workshops to develop a mechanism to address special contracts, to guard against the possibility that more special contracts than expected would arise in the future.

We will approve the stipulation. The large number of parties endorsing the stipulation and the lack of opposition gives support to the premises of the stipulation.

In order to refocus this proceeding, a review of its prior stated direction is appropriate. The central challenge posed at the outset of the proceeding was how best to achieve the goals of regulation within the limitations of available ratemaking options. The primary goals of regulation are to keep energy bills down, maintain economic efficiency, preserve the utilities' financial integrity, maintain a simple process, and achieve economic and social goals (e.g., through appropriate RD&D and demand management expenditure levels).

"Risk, Return, and Ratemaking," the report that accompanied the order initiating this proceeding (3Rs Report), discussed in detail the utility industry's necessary adjustments to changing conditions and the Commission's future ratemaking options. The need to consider changes to the existing structure arises partly because of the inherent difficulty of "command and control" regulation, which requires a comprehensive review of the utility's cost of service and operations. The Commission's ability to

perform such reviews, however, is limited under existing levels of resources, particularly in light of the problems identified in the 3Rs Report. Specifically, the electric industry faces increasing competition and technological evolution, while it remains largely insulated from the threat of losing market share and other substantial risks because of the Electric Cost Adjustment Clause (ECAC), Annual Rate Adjustment (ARA), and Electric Revenue Adjustment Mechanism (ERAM) balancing accounts. Moreover, the current regulatory system does not create incentives that encourage desirable or efficient expenditures for certain types of purchases or for items included in the utility's rate base. In response to these problems, the 3Rs Report suggests ratemaking options that rely more on utility incentives.

The ratemaking options considered in the 3Rs Report include the following:

The Status Quo -- general rate cases every three years with both the attrition rate adjustment (ARA) and ERAM;

Removing Attrition Only -- general rate cases every three years with ERAM but without the ARA;

The Strong Incentive -- eliminate ERAM, general rate cases every four years, and retain a limited attrition adjustment;

The "Recommended Strategy" -- eliminate ERAM and the ARA, with rate cases every three years;

The Core/Non-core Strategy -- retain ERAM and the ARA for residential and commercial classes only;

The Sales Index -- general rate cases every three years, index sales to forecast variables, and retain attrition; and,

The Annual Rate Case -- with no attrition or ERAM.

In this proceeding, we initially pursued the core/non-core strategy, which the stipulation rejects because of its complexity and potentially conflicting incentives. Accordingly, we will expand the scope of the topics of the comments called for in the stipulation. The Commission believes that options other than the core/non-core strategy may deserve further consideration. The original question is still before us: How can we best achieve the goals of regulation in light of available ratemaking options and changes in the industry since this rulemaking began. The following topics are also of concern to us:

Which specific proposal is most appropriate to accomplish the goals we established when we initiated this proceeding?

Can these proposals be integrated into existing proceedings, such as the general rate cases?

What circumstances are likely to lead to an increase in special contracts?

Should this proceeding be discontinued at this time?

Parties are invited to comment on these and related questions.

In Decision (D.) 88-05-072, we established a transition date of January 1, 1989, for the elimination of the Electric Revenue Adjustment Mechanism and the Attrition Rate Adjustment for the LRC. That date was effectively changed to January 1, 1990, during the hearings that took place in late July and early August this year. In light of the premises that led to the stipulation, it is unnecessary to have a transition date at this time, and it is inefficient to keep issuing decisions changing that date. We will take this opportunity to clarify that the earlier framework we had established is abandoned with the adoption of the stipulation, and the need for a transition date is eliminated.

The details of whatever replaces our previous framework will be stated in the decision following the receipt of comments.

Findings of Fact

1. A notice of stipulation was mailed to all parties on October 20, 1988.
2. A conference for discussing the details of the stipulation was held on October 27.
3. On November 3, 1988, DRA and Pacific Gas and Electric Company filed a joint motion requesting the Commission to adopt the stipulation.
4. No parties commented on the proposed stipulation within the 30 days allowed by Rule 51.4.

Conclusions of Law

1. The proposed stipulation is reasonable, consistent with law, and in the public interest.
2. The proposed stipulation should be approved.
3. The need for a transition date is eliminated by the stipulation.

INTERIM ORDER

IT IS ORDERED that:

1. The motion of the Division of Ratepayer Advocates and Pacific Gas and Electric Company requesting approval of the stipulation is granted.
2. The stipulation is approved.
3. The need for a transition date, last addressed in Decision 88-05-072, is eliminated.

4. Parties are invited to file and serve written comments on the topics mentioned in the stipulation and the questions listed in this decision within 30 days of the effective date of this order.

This order is effective today.

Dated DEC 9 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 Weiss
Victor Weiss, Executive Director
AB

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