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Decision 89 05 067 MAY 26 1989

ORIGINAL

BEFORE THE PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

Rulemaking Proceeding on the Commission's Own Motion to Revise Electric Utility Rate-making Mechanisms in Response to Changing Conditions in the Electric Industry.	I.86-10-001 (Filed October 1, 1986)

INTERIM OPINION

On December 9, 1988, we issued Decision (D.) 88-12-041 in this proceeding. The decision approved a stipulation proposed by several parties to this case. Among other points, the stipulation requested an opportunity to submit written comments on refocusing this proceeding. In D.88-12-041, we granted this request and elaborated on the topics the parties could address in their comments.

Comments were filed on January 13, 1989, by Pacific Gas and Electric Company (PG&E), Southern California Edison Company (Edison), San Diego Gas & Electric Company (SDG&E), the Commission's Division of Ratepayer Advocates (DRA), the California Energy Commission (CEC), the California Department of General Services (DGS), Toward Utility Rate Normalization (TURN), the Natural Resources Defense Council (NRDC), the California Large Energy Consumers Association (CLECA), and Anheuser-Busch Companies, Inc., General Motors Corporation, Mobil Oil Corporation, Nabisco Brands, Inc., and Union Carbide Corporation (Industrial Users).

We have carefully considered these comments and certain events that have occurred since the start of this proceeding, and we have arrived at several conclusions about the course of this case. In this opinion, we will discuss our decision to end this proceeding, and we will raise several lingering issues that must be

resolved in some fashion before we can close this case. As in other recent decisions in this proceeding, most of our comments in this opinion apply only to PG&E, Edison, and SDG&E.

I. I.86-10-001 Should Be Terminated

We have concluded that we should take steps to end this proceeding soon. Although we have not accomplished everything we set out to do at the start of this case, we have achieved several important goals.

This proceeding began as an attempt to revise our electric ratemaking mechanisms, but the focus narrowed after the *en banc* hearings of March 19 and 20, 1987, to address the expanding threat posed by customers' bypassing the utilities' systems.

We have taken several measures to combat uneconomic bypass. We moved closer to a revenue allocation based on equal percentage of marginal cost, which brought the rates for all customer classes closer to the cost of service and helped reduce the incentive for uneconomic bypass. In this proceeding, we allowed the utilites to contract to sell electricity at less than tariff rates to certain customers with a clear potential for self-generation. We developed and refined the Expedited Application Docket (EAD) to review these special contracts. We adopted a set of guidelines in D.88-03-008 to speed up our review and to safeguard the interests of other ratepayers. As part of these guidelines, we required the utilities to explore with the customer the possibilities for using demand-side management techniques to control electricity bills, as an alternative to granting rate discounts. All of these actions have helped greatly to reduce a bypass problem that at one time seemed unmanageable.

In connection with the original impetus behind this proceeding, we attempted to improve the utilities' incentives to keep customers on their systems by removing the protections of the

Electric Revenue Adjustment Mechanism (ERAM) and the attrition rate adjustment (ARA) for large customers described as the less restricted class (LRC).

The stipulation was in part inspired by the unanticipated and extraordinary difficulties of working out the details of removing these mechanisms for only one group of customers. The difference in the proposed regulatory treatment between the LRC and other customers created several obstacles, including enormous problems of allocating costs and revenue responsibility. In the meantime, the threat of uneconomic bypass has greatly receded. The parties to the stipulation reacted to these developments and concluded that "under current conditions, the potential for uneconomic bypass does not warrant undergoing all the complexities that would result from eliminating the ERAM and ARA mechanisms for the LRC alone."

We agree that the threat of uneconomic bypass has diminished under current circumstances and that a revision of regulatory mechanisms that is primarily impelled by the threat of bypass may no longer make sense.

Our experience in this case has persuaded us that the effort required to work out the details of a partial removal of ERAM and the ARA substantially outweighs any benefits that may reasonably be expected from this revision. The other possible revision is a total removal of ERAM and the ARA for all customers. But this option has implications that extend well beyond the issues raised by the threat of uneconomic bypass, and we are unwilling to take this step at this time without considering the broader effects of this action.

Our judgment is that future regulatory revisions should be specifically defined and should be given a fresh look in new, focused, and manageable proceedings unburdened by the history that this case has accumulated. Thus, we will take the necessary steps to end this proceeding.

A major implication of this decision is that ERAM and the ARA will continue to apply to all customer classes for the present. However, we may consider revisions to these and other mechanisms in future proceedings.

II. The Conservation Option

One of our reasons for letting the utilities offer customers special contracts--and particularly contracts for incremental sales--was to make use of excess generating capacity that was available. It appears that the extent of this excess capacity has diminished over time. SDG&E has recently made contracts available to independent power producers to meet part of its expected need for peaking generation (D.89-02-017). Growing demand has led to the possibility that other utilities may also soon need to plan for capacity additions, including new generating plants.

It is essential that utilities have enough capacity to meet the needs of their customers. But in recent times, building new generating plants has been fraught with problems, and these problems have highlighted the advantages of avoiding or postponing capacity additions. As we noted in D.88-03-008 (p. 16), adding new generating resources using current technologies is usually more expensive and detrimental to the natural environment than relying on existing resources.

We therefore limited our special contracts program to avoid stimulating demand to a point where new generating plants were needed. One aspect of this limitation was what we have called the conservation option, which required utilities, during negotiations about special contracts, to explore with customers the possibilities for reducing electricity bills through demand-side management.

We have long been aware of the benefits of conservation and load management. Environmental benefits include less air and

water pollution and reduced production of hazardous wastes. By lowering the need for generation from plants fired by oil and gas, conservation helps moderate the demand for and prices of these fuels. To the extent that cost-effective demand-side management allows a utility to avoid or defer construction of a new generating plant, there are several associated benefits. As a general matter, avoiding such additions to rate base helps keep rates down. If a utility does not need to build a new generating plant, it also does not need the capital for construction of the plant, and it avoids incurring the increased financing costs associated with issuing new debt or offering new shares of stock. Demand-side management, by reducing the uncertainty associated with demand forecasts, also helps utilities and regulators in making difficult planning decisions.

In recent years, we have maintained fairly constant budgets for conservation and load management for our utilities, because excess capacity and low oil and gas prices limited the cost-effective options. But now several circumstances suggest that a more aggressive demand-side management program may be warranted.

Excess generating capacity has diminished. In recent months, environmental problems that are affected by fossil-fueled generation have come to the forefront, including air pollution in the Los Angeles Basin and the "greenhouse effect," predicted to result from increased atmospheric levels of carbon dioxide. Conservation can make a contribution toward reducing these problems. In addition, there has been increasing if belated concern about this country's trade deficit with other nations and the underlying problem of the competitiveness of American businesses and industries. Using electricity efficiently lowers costs and helps California industries and businesses compete successfully against foreign and domestic rivals. Load management helps control utilities' costs and rates by using existing generating plants more efficiently.

Furthermore, the conditions that led us to adopt flat demand-side management budgets for the last few years--a policy called "staying the course"--need to be reexamined. Much of the justification for this policy came out of a time of relatively cheap fossil fuel prices; lower fuel prices made it more difficult for demand-side management programs to meet tests of cost-effectiveness. Now, however, the fuel market has gradually tightened. In addition, advances in demand-side management technologies in recent years may have lowered costs. The time is ripe for reconsidering our policy.

We also note that other states have developed some novel and imaginative approaches to demand-side management. We want to evaluate those approaches and see if they are appropriate for California.

For all these reasons, we want to take a closer look at the role of demand-side management in our regulatory scheme. We will examine the issues in an en banc hearing, to be held on July 20, 1989. We will shortly issue a separate notice on the specific topics and format for this en banc to all parties in this proceeding.

During this en banc, we would like parties to consider and comment on one specific unresolved issue related to this proceeding. We want to retain the conservation option as part of the utilities' negotiations with potential special contracts customers. But our decision to keep ERAM changes the method of financing conservation items selected by these customers. With ERAM in place for all customers, the forecasts of sales and revenues decrease in importance, since ERAM adjusts revenues for sales variations. In D.88-07-058 (mimeo. p. 58), we decided to finance conservation and load management items for potential special contracts customers by making an explicit adjustment to the forecast of the LRC's revenues to account for the resulting reduced

sales. When all revenue variations are covered by ERAM, that source of financing is no longer practical.

Two types of costs need to be addressed. First is the loss of revenues that the utility will suffer from the lower sales that are expected to result from the conservation items. The second type is the direct costs that the utility will incur in supplying the customer with its selected conservation items.

Until a more permanent approach to these costs is adopted, perhaps following the en banc hearings, we will treat these costs as follows. The loss in revenues will be accounted for in ERAM; this results directly from our decision to retain ERAM for all customers. Direct costs of the conservation items should come out of the utility's existing budget for demand-side management. Although existing demand-side management budgets do not expressly include the costs of supplying conservation items to special contracts customers, our experience so far suggests that requests for these items will be limited and that existing demand-side management budgets are adequate. If the existing budgets are exhausted, requests for additional funding for these conservation items will be considered in connection with the approval of individual special contracts.

III. Simplifying the Attrition Rate Adjustment

Our review of the comments filed in response to the stipulation gives us the impression that no party opposes a mechanism to account for financial attrition. Support for operational and rate base attrition is less universal.

Although we have decided to retain the ARA for now, we believe that the operation of this mechanism can be simplified.

We intend to pursue some of the opportunities for simplification, and we will institute either a rulemaking or an investigation of the current ARA mechanism. In the order

instituting the rulemaking or investigation, we will set out some proposals for simplifying the ARA. Further consideration of the ARA will take place in the new rulemaking or investigation, rather than in this proceeding.

IV. Contracts for Incremental Sales

Since we decided to allow utilities to enter into contracts for incremental sales (D.87-05-071, mimeo. pp. 10-11), many elements touching on that decision have changed. These changes lead us to review our approach to contracts for incremental sales.

The impetus behind our permitting utilities to enter into contracts for incremental sales was the existence of excess capacity. These contracts let the utility take advantage of idle capacity by offering electricity at reduced rates on a short-term basis. The resulting increased sales allow more efficient use of existing generating plant.

Under the scheme we previously pursued for a partial removal of ERAM, utilities would bear the immediate loss from bypass by large customers, and the revenue from contracts for incremental sales would help offset any losses from bypass that the utility might incur.

At the same time, we were very concerned that these contracts would stimulate additional demand to a point where the utility would need to add capacity. We have not yet addressed the role of special contracts when the utility needs capacity. The existing guidelines reflect our focus on periods of excess capacity. The guidelines for special contracts put a three-year limit on contracts for incremental sales. We placed an additional, superseding limit on all special contracts:

> "The term of a special contract conforming to the guidelines should not extend into any year when forecasts indicate that additional

> capacity will be needed to meet target reserve margins. The purpose of allowing special contracts is to take advantage of existing excess capacity. Considerable justification will be required to demonstrate the benefits of extending discounted rates into a period when increased demand creates a need for additional capacity." (D.88-03-008, mimeo. p. 16.)

We have now reached the threshold of such a period, at least for some utilities.

The retention of ERAM for all customers means that the revenues from contracts for incremental sales will accrue to ratepayers, rather than to the utility's shareholders. Retaining ERAM also eliminates the utility's direct incentive to pursue and enter into these contracts.

Although the factual and regulatory context has changed in many respects, we continue to believe that contracts for incremental sales can play a role in our scheme of regulation, and we will continue to allow the utilities to enter into such contracts, subject to the limitations expressed in the guidelines. However, the changed circumstances we have described must lead to an increased scrutiny and more complex consideration of such contracts. In particular, because of the reduction in excess capacity, our review must take a broader view of the benefits and costs for ratepayers of such contracts. Benefits like increased revenues and more efficient use of generating plants must be weighed against costs such as the long-term costs of increased demand that might be stimulated by the contract. Since ratepayers will now both reap the benefits and bear the costs of contracts for incremental sales, this broader consideration of the costs and benefits for ratepayers is appropriate.

V. The Risk of Loss from Special Contracts

One consequence of today's decision to retain ERAM for all customers is that the risk of loss from bypass and special contracts remains on ratepayers. Although we had hoped to find a way to shift some of this risk to the utilities, we take some comfort from the widespread perception that losses from bypass should be considerably lessened because of the measures we have taken to reduce uneconomic bypass.

We expect the utilities to do their best to minimize losses from special contracts. We had hoped to use the utilities' own interests to motivate them to negotiate the highest possible rates in special contracts. Retaining ERAM has erased the premise of our initial attempt to create the incentives for this behavior, but our preference for incentive-based regulation remains undisturbed, and we may in the future develop other methods to create appropriate incentives.

Even with the retention of ERAM, however, we believe that the review and approval procedures we have established will help ensure that utilities will negotiate vigorously with potential special contracts customers, and the guidelines we have established will help protect ratepayers from bearing improper costs of those contracts.

VI. Reviewing the Reasonableness of Special Contracts

As we have just mentioned, the purpose of the review of special contracts that takes place in the EAD is to ensure that other ratepayers are not unfairly subsidizing special contracts customers. The guidelines we established to speed up this review are aimed, more specifically, at ensuring that the rate under the special contract covers at least the costs of producing the power sold under the contract.

With the continuation of ERAM for all customers and the decreased importance of the revenue forecast, we have no obvious forum for a second type of review, a review of the reasonableness of special contracts. We had established that the reasonableness of special contracts would be addressed as part of the forecast of revenues, but the full retention of ERAM renders the forecast unsuitable for this purpose. There are problems with all of the other likely proceedings for this reasonableness review.

The EAD, for example, was designed as a fast review to see that "other ratepayers are not unduly disadvantaged by these contracts" (D.88-03-008, mimeo. p. 4). Reasonableness was not to be an issue in the EAD:

> "We should make clear that the nature of the review of a special contract that occurs in the Expedited Application Docket...is not one that results in a finding that the level of prices in the special contract is reasonable and prudent. Rather, approval merely indicates that the contract's prices are high enough so that other classes of ratepayers are not unreasonably harmed." (D.88-03-008, mimeo. p. 40.)

The primary problem with reviewing the reasonableness of these contracts in the EAD is that this type of review would complicate and lengthen the proceeding. More contracts would go to hearing, and the quick review that is the purpose of the EAD would be sabotaged.

Another candidate for the reasonableness review of special contracts is the reasonableness phase of a utility's Energy Cost Adjustment Clause (ECAC) case. Although the reasonableness of the utility's actions is the central issue in these proceedings, the typical ECAC review covers the utility's <u>purchases</u> of fuel and power. Special contracts, by contrast, govern a utility's <u>sales</u> to some of its customers.

Despite these problems, our judgment is that the ECAC case provides the best forum for the review of the reasonableness

of special contracts. Besides having reasonableness as its central topic, the reasonableness phase of ECAC cases also provides a way to make adjustments if contracts are found to be unreasonable.

VII. Proposals for Rate Options

In D.87-05-071, we found that tariffed rate options, designed to meet the needs of particular groups of customers, could offer choices that could keep some customers on the utility's system without resorting to special contracts. In D.88-03-008, we concluded that the preferred forum for presenting proposals for rate options was the general rate case, although proposals could also be entertained in ECAC cases that considered extensive revisions in rate design. In addition, we allowed for the possibility of special applications for approval of rate options in extraordinary circumstances.

We have recently revised the rate case plan in a manner that affects our earlier determinations (D.89-01-040). These revisions separated consideration of rate design from the bulk of the general rate case proceeding and established annual electric rate design windows for the years between general rate cases.

In light of these revisions, proposals for rate options should be presented with other rate design proposals either in the rate design portion of the general rate case or in the annual electric rate design window. We will continue to allow for the possibility of a separate application in extraordinary circumstances, but with the more frequent schedule for consideration of rate design changes in place, we will require substantial justification by utilities wishing to resort to this emergency procedure.

VIII. Crediting Balancing Accounts

In D.88-03-008, we directed the utilities to account for sales under special contracts by booking a credit to their balancing accounts in an amount sufficient to cover the incremental costs of producing power sold under the contracts. We also ordered the utilities to file a list of such credits and a description of how they proposed to make such credits.

The utilities made the required filings, but the hearings that were to consider this issue were postponed and eventually made unnecessary by the stipulation.

Our decision to retain ERAM for all customers makes it somewhat easier to make the proper credits to the balancing accounts. We found the proposal of PG&E to be attractive because of its simplicity. As we understand this proposal, for all sales under special contracts, PG&E would book a credit to the Annual Energy Rate and to each balancing account, except ERAM, at the appropriate rate component for the particular schedule that would apply to the customer in the absence of the special contract. The credit booked to the ERAM account would be reduced to reflect the difference between the appropriate tariff rate and the rate under the special contract. This procedure has the effect of booking full credits to all accounts except for ERAM, and the rate shortfall resulting from the special contract would be reflected entirely in the ERAM component.

A different crediting mechanism may be necessary if revenue allocation policy is reflected in a utility's ECAC rates, rather than its ERAM rates. For such utilities, the ECAC account credits might more appropriately use the system average ECAC rate instead of the tariffed ECAC rate that would otherwise apply to the special contract customer's usage.

Parties may file and serve comments on the utilities' filings within 30 days of the effective date of this decision. Comments focusing on the details of PG&E's proposal are particularly encouraged, but we welcome other proposals as well.

IX. Reacting to an Increase in Bypass

In approving the stipulation, we agreed with the provision to hold a workshop to develop a mechanism to react to an unanticipated increase in bypass. The purpose of this effort was to have a mechanism in place to counter increased bypass in the event that the number of special contracts exceeded our ability to process them on a case-by-case basis, as we do now.

The workshop was held on December 6, 1988, and a report of the workshop was circulated on February 6, 1989.

Discussions at the workshop centered on PG&E's proposal. The report of the workshop summarized this proposal:

> "PG&E proposed that a 'marketing list' be created that includes only customers considered to be legitimate bypass threats (analogous to the non-core class definition for natural gas customers). The Commission would then adopt a target indifference rate (defined on an aggregate basis for the entire marketing list) and an associated revenue target that the utility would be placed at risk to collect. The remainder of the proposal dealt with the issues of how the list would be defined, the target indifference rate set, and the risk shared--along with a discussion of possible mechanisms for reducing the incentives of the involved parties to indulge in 'gaming' behavior."

Although several parties, in particular the utilities' representatives, supported the broad outlines of this proposal, the parties differed considerably on the details. The workshop adjourned without reaching consensus on a detailed recommendation.

We gather from the report that developing the details of PG&E's proposal could require considerable time and effort. At this time, we do not believe that such an effort makes sense. The number of special contracts remains low, and we believe that our efforts to improve revenue allocation and rate design will continue to reduce the attractiveness of uneconomic bypass for most customers. If the number of special contracts begins to increase and threatens our ability to review them in the EAD, we will take the necessary steps to respond to that increase.

We should make it clear that we are not rejecting PG&E's proposal or downplaying the contribution made by the participants in the workshop. Our decision reflects only our judgment that the effort that appears to be required to develop an off-the-shelf mechanism to respond to increased bypass is not justified under present circumstances.

X. Remaining Petitions for Modification

On July 8, 1988, TURN filed a Petition for Modification of D.88-03-008 and a Motion to Suspend the Hearing Schedule. On July 13, 1988, DRA filed a Petition for Modification of D.87-05-071 and D.88-03-008 and a Motion to Suspend the Implementation Proceeding. Both motions to suspend were denied in a ruling by the Administrative Law Judge on July 20, 1988, but we have not yet addressed the petitions for modification.

PG&E responded to both petitions on July 19, and Edison and SDG&E responded to the petitions on July 20.

The petitions have largely been answered by the passing of time and changed circumstances. Although TURN intermixed the relief it sought in its motion to suspend and its petition, it appears that it sought modification of D.88-03-008 to refocus the proceeding and to reconsider the decision to remove ERAM for only some customers. Today's decision supersedes TURN's requested modifications. In addition, TURN requested modification to clarify the Commission's intent on crediting balancing accounts for sales under special contracts. Our decision to retain ERAM for the present allays some of TURN's concerns, and we have called for comments to iron out the remaining details of this issue. Thus, the modifications to D.88-03-008 that TURN requested are no longer necessary.

DRA's requested modifications were also closely tied to the procedural requests in its motion. DRA asked for either the

complete elimination or retention of the ARA (although it seemed to favor retaining the ARA for the interim) and recommended a different schedule for implementing the decision to remove ERAM for the LRC. As with TURN's petition, the modifications DRA requested have become moot with the determinations we have announced earlier in this decision.

For these reasons, TURN's and DRA's petitions for modification should be denied.

Findings of Fact

1. In D.88-12-041, we requested comments on a number of topics. PG&E, Edison, SDG&E, DRA, CEC, DGS, TURN, NRDC, CLECA, and Industrial Users submitted comments in response to this invitation.

2. Working out the details of removing ERAM and the ARA for only one group of customers is extremely difficult.

3. The Commission has taken several steps in the last few years that have helped reduce the threat of uneconomic bypass.

4. Conservation and load management have environmental, operational, and financial benefits for utilities and their customers.

5. Declining excess generating capacity, concern about air quality in the Los Angeles Basin and about the greenhouse effect, and concerns about the United States' balance of trade and the competitiveness of American businesses and industry have heightened interest in increased demand-side management in recent months.

6. D.89-01-040 revised the rate case plan and set up annual electric rate design windows for the years between general rate cases.

7. On July 8, 1988, TURN filed a Petition for Modification of D.88-03-008 and a Motion to Suspend the Hearing Schedule. On July 13, 1988, DRA filed a Petition for Modification of D.87-05-071 and D.88-03-008 and a Motion to Suspend the Implementation Proceeding. Both motions to suspend were denied in a ruling by the Administrative Law Judge on July 20, 1988.

Conclusions of Law

1. I.86-10-001 should be terminated soon.

2. ERAM and the ARA should continue to apply to all customer classes for the present.

3. Our policies and overall approaches to conservation and load management should be reexamined.

4. Contracts for incremental sales can continue to play a role in our scheme of regulation. With the retention of ERAM, ratepayers bear the costs and reap the benefits of contracts for incremental sales.

5. The reasonableness of special contracts should be reviewed in the ECAC proceeding.

6. Proposals for rate options may be presented in the rate design portion of the general rate case or in the annual rate design window for years between general rate cases.

7. The effort required to develop a mechanism to respond to unexpected increases in the numbers of special contracts is not justified under present circumstances.

8. TURN's petition for modification of July 8, 1988, and DRA's petition for modification of July 13, 1988, should be denied.

INTERIM ORDER

IT IS ORDERED that:

1. An *en banc* hearing on the role of demand-side management in our regulatory system will be held on Thursday, July 20, 1989, at 10:00 a.m. in the Commission courtroom, 505 Van Ness Avenue, San Francisco, California.

2. The loss in revenues that a utility will suffer when a potential special contracts customer chooses conservation and load management items instead of a rate discount will be accounted for through its Electric Revenue Adjustment Mechanism, and the direct costs of the conservation items will come out of the utility's

existing budget for demand-side management. If the existing demand-side management budgets are exhausted, requests for additional funding for conservation items will be considered in connection with the approval of individual special contracts or conservation items.

3. The reasonableness of special contracts shall be reviewed in each utility's Energy Cost Adjustment Clause proceeding.

4. Proposals for rate options may be presented in the rate design portion of the general rate case or in the annual rate design window for years between general rate cases.

5. Parties to this proceeding are invited to file and serve written comments on the utilities' filings on crediting balancing accounts for sale under special contracts. The comments should be filed with the Docket Office and served on all parties to this proceeding within 30 days of the effective date of this decision.

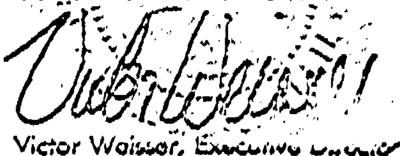
6. Except to the extent already granted, Toward Utility Normalization's petition for modification of July 8, 1988, and the Division of Ratepayer Advocates' petition for modification of July 13, 1988, are denied.

This order is effective today.

Dated MAY 26 1989, at San Francisco, California.

G. MITCHELL WILK
President
FREDERICK R. DUDA
STANLEY W. HULETT
JOHN B. OHANIAN
PATRICIA M. ECKERT
Commissioners

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



Victor Weisser, Executive Director

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Excess generating capacity has diminished. In recent months, environmental problems that are affected by fossil-fueled generation have come to the forefront, including air pollution in the Los Angeles Basin and the "greenhouse effect," predicted to result from increased atmospheric levels of carbon dioxide. Conservation can make a contribution toward reducing these problems. In addition, there has been increasing if belated concern about this country's trade deficit with other nations and the underlying problem of the competitiveness of American businesses and industries. Using electricity efficiently lowers costs and helps California industries and businesses compete successfully against foreign and domestic rivals. Load management helps control utilities' costs and rates by using existing generating plants more efficiently.

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The utilities made the required filings, but the hearings that were to consider this issue were postponed and eventually made unnecessary by the stipulation.

Our decision to retain ERAM for all customers makes it somewhat easier to make the proper credits to the balancing accounts. We found the proposal of PG&E to be attractive because of its simplicity. As we understand this proposal, for all sales under special contracts, PG&E would book a credit to each balancing account, except ERAM, at the appropriate rate component for the particular schedule that would apply to the customer in the absence of the special contract. The credit booked to the ERAM account would be reduced to reflect the difference between the appropriate tariff rate and the rate under the special contract. This procedure has the effect of booking full credits to all accounts except for ERAM, and the rate shortfall resulting from the special contract would be reflected entirely in the ERAM component.

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In approving the stipulation, we agreed with the provision to hold a workshop to develop a mechanism to react to an

unanticipated increase in bypass. The purpose of this effort was to have a mechanism in place to counter increased bypass in the event that the number of special contracts exceeded our ability to process them on a case-by-case basis, as we do now.

The workshop was held on December 6, 1988, and a report of the workshop was circulated on February 6, 1989.

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Although several parties, in particular the utilities' representatives, supported the broad outlines of this proposal, the parties differed considerably on the details. The workshop adjourned without reaching consensus on a detailed recommendation.

We gather from the report that developing the details of PG&E's proposal could require considerable time and effort. At this time, we do not believe that such an effort makes sense. The number of special contracts remains low, and we believe that our efforts to improve revenue allocation and rate design will continue to reduce the attractiveness of uneconomic bypass for most customers. If the number of special contracts begins to increase and threatens our ability to review them in the EAD, we will take the necessary steps to respond to that increase.