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Decision 90-03-078 March 28, 1990

BEFORE THE PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

Application of PACIFICORP, dba)
 PACIFIC POWER & LIGHT COMPANY)
 (U 901 E) under the Public Utilities)
 Code of the State of California for)
 authority to eliminate the Electric)
 Revenue Adjustment Mechanism (ERAM))

Application 88-10-014
(Filed October 7, 1988)

ORIGINAL

O P I N I O N

I. Summary

This ex parte decision authorizes Pacific Power & Light Company (PP&L) to eliminate the Electric Revenue Adjustment Mechanism (ERAM) from its tariffs. No rate change will result since the current ERAM rate is zero. The ERAM balance remaining will be credited to the new "Other Deferred Credit Account," (Account) to be amortized when future PP&L rate change applications are processed or after three years. In order to insure that PP&L's demand-side management efforts do not languish because of the elimination of ERAM, we will require them to submit their own proposal for linking their corporate earnings to successful investments in energy efficiency programs.

II. Procedural Background

PP&L filed this application on October 7, 1988 seeking Commission authorization to eliminate ERAM from its tariffs. PP&L indicates several reasons for eliminating ERAM:

1. Rate stability and predictability would be enhanced since rates would not change due to ERAM overcollections or undercollections.
2. PP&L would be able to better maintain its competitive ability by offering predictable rates.

PP&L states that its commitment to conservation would not change as a result of eliminating ERAM.

Prior to filing this application, PP&L had requested Commission approval by Advice Letter to reduce the ERAM rate from 0.563 ¢/kWh to zero, and to increase base rates by a corresponding amount, for a revenue shift of \$3.548 million. Resolution E-3115 authorized those rate changes effective November 23, 1988, concluding that after this base rate increase PP&L would still not earn the 10.64% rate of return authorized in its latest general rate case Decision (D.) 86-12-097. By that time the ERAM account balance, which was undercollected for five years, had been recovered. The resolution also recommended that any overcollection in the ERAM account be handled in this proceeding. The account was overcollected by approximately \$816,000 at the end of May, 1989.

A prehearing conference was held in the Commission Courtroom in San Francisco on January 3, 1989 to determine whether any parties opposed the application or desired evidentiary hearings. No parties oppose this application. The Division of Ratepayer Advocates (DRA) agrees with PP&L that no hearings are necessary and that this application should be handled ex parte. DRA supports PP&L's request to eliminate ERAM. DRA's position is consistent with the position it took in I.86-10-001, the Commission's investigation into the need for revised ratemaking due to changing conditions in the electric industry. In a portion of that case that focused on Pacific Gas and Electric Company, Southern California Edison Company, and San Diego Gas & Electric Company, DRA recommended that the Commission consider eliminating ERAM and other risk-reducing mechanisms for those utilities. DRA contended that the utilities would then have more incentive to compete by controlling costs and improving efficiency.

III. Discussion

ERAM was implemented for PP&L by D.84-07-050, with two stated purposes. First, to compensate for sales fluctuations in order to allow PP&L a better chance of earning its allowed rate of return if sales dropped, and to protect against excess PP&L earnings if sales increased. The accuracy of sales forecasts became less important since the actual revenues were tracked.

Second, ERAM eliminated the utility's disincentive to encourage conservation. Otherwise, increased conservation would reduce PP&L's revenues and earnings.

PP&L perceives its market as becoming more competitive as other parties and technologies compete for its large electric customers. The competition comes from cogeneration, from other electric suppliers, and from competing fuels including oil, gas, wood and wood waste products.

PP&L has publicly stated its intent to meet the competition and to preserve its market by having no net overall rate increases through the end of the 1980s.

Since ERAM requires utilities to recover in rates the revenues authorized by the Commission, declining sales due to customers leaving the system require a rate increase to recover the resulting ERAM undercollection. This can result in more customers leaving the system due to the further rate increases, in turn exacerbating the problem by requiring more rate increases. The resulting lack of rate stability and predictability may further encourage customers who have alternates to leave the utility system. It is desirable to retain customers so that they can help to pay PP&L's fixed costs.

In I.86-10-001, we addressed similar problems for the three largest California utilities. Although we initially attempted to improve the utilities' incentives to keep customers on

the system by removing ERAM and the attrition rate adjustment for certain customer classes, this sort of partial removal ultimately proved extremely difficult to carry out. In D.89-05-067, we acknowledged this difficulty and decided to retain ERAM for these utilities for the time being.

PP&L's proposal can be distinguished in several ways from the approaches we explored, and eventually rejected, in I.86-10-001. PP&L proposes a total removal of ERAM for all of its customer classes, rather than the partial removal we considered in I.86-10-001. As we suggested in D.89-05-067, a total removal of ERAM may be easier to implement than the partial elimination we had contemplated for the larger utilities. PP&L is also willing to take on the risk of revenue variation that accompanies the removal of ERAM. In addition, PP&L's circumstances are different from its larger California counterparts because of the geography and climate of its service area and the mix of its customer classes.

Our primary reservation about PP&L's request has to do with the effect of removing ERAM on PP&L's conservation efforts. PP&L has stated that it will maintain its commitment to conservation even in the absence of ERAM. In fact, in its recent GRC application, PP&L has proposed a three-fold increase in its DSM programs. Nevertheless, we remain concerned that the elimination of ERAM may, over time, dull utility efforts in this area. Thus, ERAM may need to be replaced with a program that provides incentives for utility DSM investment by linking utility earnings and profitability to DSM success. Toward that end, we call for PP&L, within 60 days of the effective date of this order, to file an application for its own DSM incentive program which links its profitability to energy efficiency success. We direct PP&L to the recent Energy Efficiency Blueprint sponsored by what is known as the Collaborative Process for some ideas on the general topic of utility DSM incentives. Further, we put the utility on notice that we will be prepared in the future to reexamine the need for ERAM

should utility DSM efforts decline below a level that we consider reasonable.

We conclude that eliminating ERAM is in the ratepayers' interest, as well as in the interest of PP&L and its stockholders. PP&L is now willing to put itself at greater risk so that it may more effectively compete for electric sales. We believe that eliminating ERAM will allow PP&L to compete more effectively to retain its customers. We will grant this request with the aforementioned directive calling for a PP&L incentive proposal within 60 days.

Resolution E-3115 has already reduced PP&L's ERAM rate to zero. This decision need only terminate the ERAM mechanism so that no further rate changes will result from ERAM over- or undercollections. We will also order that the ERAM account balance be transferred to a new account for disposition in future PP&L rate change applications. The account will accrue interest in the same manner as the ERAM account.

Findings of Fact

1. PP&L requests Commission authority to eliminate ERAM.
2. ERAM was implemented for PP&L by D.84-07-050 to allow it a better chance of earning its allowed rate of return and to eliminate the disincentive to encourage conservation.
3. The electric utility industry now competes with cogeneration, other electric suppliers, and other fuels.
4. PP&L stated its intent to have no net overall rate increases until 1990 or later.
5. PP&L's ERAM rate was reduced to zero, effective November 23, 1988 by Resolution E-3115.
6. ERAM necessitates rate changes that impact rate stability and predictability.
7. There were no protests to this application, and no party requested evidentiary hearings.
8. DRA supports PP&L's request to eliminate ERAM.

Conclusions of Law

1. This application may be handled ex parte since there are no protests and no party requested evidentiary hearings.
2. Eliminating ERAM for PP&L is justified and is in the interest of PP&L's ratepayers.
3. PP&L should be authorized to file tariffs to eliminate ERAM.
4. PP&L should be ordered to establish a new Account to handle the ERAM account balance.
5. PP&L should make a proposal for linking successful investments in energy efficiency programs to its earnings in order to insure that eliminating ERAM does not result in a decline in PP&L's energy efficiency efforts.

O R D E R

IT IS ORDERED that:

1. Pacific Power & Light Company (PP&L) is authorized to file tariffs to eliminate the Electric Revenue Adjustment Mechanism (ERAM), in accordance with General Order 96-A, within 10 days of the effective date of this order. PP&L shall concurrently establish a new interest bearing "Other Deferred Credit Account" (Account). The ERAM account balance at that time shall be transferred to the new account.
2. If no rate changes for PP&L have been authorized within three years of the effective date of this decision, PP&L shall file an Advice Letter with the Commission to amortize the Account balance.

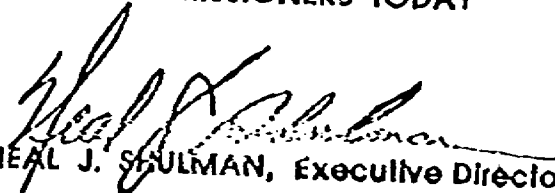
3. Within 60 days of the effective date of this order, PP&L should file with the Commission a proposal linking PP&L earnings to improvements in the level of energy efficiency investments made by the utility.

This order becomes effective 30 days from today.

Dated March 28, 1990, 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


NEAL J. SCHULMAN, Executive Director

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