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Decision 90 05 030 MAY 4 1990 ORIGINAL MAY 7 1990

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)

FINAL OPINION

In Decision (D.) 89-05-067, we stated our intention to terminate this proceeding. We were unable to carry out our intention at that time, however, because of two unresolved issues. We are now able to resolve those issues and to close this proceeding.

I. Demand-Side Management and the Conservation Option

In D.89-05-067 (mimeo., p. 6), we mentioned our interest in taking "a closer look at the role of demand-side management in our regulatory scheme," and we set an en banc hearing on this broad issue. We also asked parties to comment in particular on how to finance conservation options chosen by special contracts customers, because the financing method adopted in D.88-07-058 was no longer practical in light of our decision to retain the Electric Revenue Adjustment Mechanism (ERAM) for all customers.

The en banc hearing of July 20, 1989, led to the formation of an informal collaborative group composed of parties representing many different perspectives on demand-side management (DSM). With our encouragement, this collaborative group met for six months and issued "An Energy Efficiency Blueprint for California" on January 24, 1990. This report recommends an innovative approach to financing DSM investments by utilities, and the participating utilities--Pacific Gas and Electric Company

(PG&E), San Diego Gas and Electric Company (SDG&E), Southern California Edison Company (Edison), and Southern California Gas Company--have filed applications based on the recommendations of the report. It appears that the concerns we raised about DSM in D.89-05-067 will be addressed in the proceedings resulting from these applications.

In addition, the interim approach to financing conservation options for special contracts customers that we adopted in D.89-05-067 appears to be working adequately:

> "The loss of revenues [resulting from the conservation items] will be accounted for in ERAM....Direct costs of the conservation items should come out of the utility's existing budget for demand-side management....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." (D.89-05-067, mimeo., p. 7.)

Thus, there is no apparent need to keep this proceeding open to consider issues related to DSM or financing the conservation option.

II. Crediting Balancing Accounts

In D.89-05-067, we reviewed earlier filings on how to account for sales under special contracts by booking credits to the utilities' various balancing accounts. We stated our interest in the simplicity of PG&E's proposal:

> "As we understand this proposal, for all sales under special contracts, PG&E would book a credit to the Annual Energy Rate [AER] 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." (D.89-05-067, mimeo., p. 13.)

We invited parties to comment on the proposals on crediting balancing accounts that the utilities had earlier submitted. PG&E, Edison, and the Division of Ratepayer Advocates (DRA) responded to our invitation with comments filed on June 26, 1989.

PG&E, not surprisingly, supported its approach, which we had summarized approvingly in D.89-05-067. PG&E supplied additional details of how it performs the crediting to its various balancing accounts.

DRA found that PG&E's proposal best comported with our order in D.88-03-008. DRA also agreed "with the Commission's suggestion that the average ECAC [Energy Cost Adjustment Clause] rate is the appropriate credit for special contract revenues."

Edison noted two defects in PG&E's proposal. First, PG&E's proposal calls for balancing account credits that are not based on costs. In particular, the rate components that PG&E proposes to use to credit the AER and each balancing account, except ERAM, include offset rates. "Because amortization of balancing account balances reflects costs associated with sales made in prior periods, a portion of offset rates does not reflect costs associated with incremental sales," according to Edison.

Second, Edison believes that under certain circumstances, PG&E's proposal results in negative base rates, which could create the impression that special contract rates do not recover the full costs of service.

To remedy these two defects, Edison proposes to allocate revenue from special contracts as follows:

> "1. Reflect in the determination of the monthly entry to the ECAC Balancing Account an

amount of revenue equal to one minus the then-effective AER percentage, multiplied times the product of the kilowatt-hours billed for service rendered during the month pursuant to the special contracts, times the applicable avoided energy cost in cents per kilowatt-hour, effective during the month, adjusted for line losses applicable to retail sales. Revenue allocated to the AER should equal the then-effective AER percentage, multiplied times the product of the kilowatt-hours billed for service rendered during the month pursuant to the special contracts, times the applicable avoided energy cost in cents per kilowatt-hour, effective during the month, adjusted for line losses applicable to retail sales.

"2. Allocate revenue from special contracts to cover the Public Utilities Commission Reimbursement Fee (PUCRF) by an amount equal to special contract sales times the applicable PUCRF rate.

"3. Reflect in the determination of the monthly entry to the ERAM Balancing Account an amount of revenue equal to the total revenues billed for service rendered during the month pursuant to special contracts less the sum of: (1) the monthly revenue allocate to the ECAC Balancing Account and the AER; and (2) the monthly revenue allocated to the PUCRF."

Although there are drawbacks and benefits to each of the proposed crediting methods, on balance we prefer PG&E's general approach.

Edison points out that PG&E's approach may give the impression that special contracts are not recovering their full cost of service. In D.88-03-008, however, we set forth guidelines on special contracts, including a firm and specific indication of the components of the floor price for such contracts. The floor price is designed to "ensure that the utility recovers all of the cost it incurs in serving the customer under the contract."

(D.88-03-008, mimeo., pp. 6-7.) Although it would be preferable to recover specific rate components, the chief goal is to make certain that the costs of serving the customer are recovered. As long as the costs of service are recovered, we are not greatly concerned about the appearance created by individual rate components.

Edison also points out correctly that portions of PG&E's proposals will not be based on costs, because ECAC rates frequently include amortizations of past over- or undercollections, as well as current energy costs. Although a perfectly cost-based approach would be ideal, Edison's attempt to provide cost-based credits is significantly more complicated than PG&E's approach. This extra complication will make it more difficult for our staff to verify that proper credits are being made. At least in this case, the goal of cost-based credits is outweighed by the need for simplicity.

In addition, Edison's proposal is likely to result in a credit to the AER that differs from the rate established in the tariffs. This difference from tariff rates could create inappropriate and unintended incentives for the utility to enter into special contracts and contracts for incremental sales.

In its comments in response to D.89-05-067, PG&E set forth the order in which it credits revenues from special contracts to its various balancing accounts. For consistency, we will direct Edison, SDG&E, and PG&E to credit revenues from balancing accounts in the way proposed by PG&E and to follow the same general order of crediting their balancing accounts. Credits should be made in the following general order: AER, other offset rates (including the Public Utilities Fee and the low-income ratepayer assistance (LIRA) surcharge (except for special contracts executed before September 7, 1989 (see D.89-09-044))), ECAC, ERAM, and balancing account amortization rates.

Findings of Fact

1. The en banc hearing of July 20, 1989, led to the formation of an informal collaborative group, which issued "An Energy Efficiency Blueprint for California" on January 24, 1990.

2. The interim approach to financing conservation options for special contracts customers that we adopted in D.89-05-067 is working adequately.

3. In D.89-05-067, we invited parties to comment on the proposals on crediting balancing accounts that the utilities had earlier submitted. PG&E, Edison, and DRA responded to our invitation with comments filed on June 26, 1989.

Conclusions of Law

1. This proceeding should be closed.

2. Edison, SDG&E, and PG&E should credit revenues from balancing accounts in the general way proposed by PG&E and in the following general order: AER, other offset rates (including the Public Utilities Fee and the LIRA surcharge (except for special contracts executed before September 7, 1989)), ECAC, ERAM, and balancing account amortization rates.

FINAL ORDER

Therefore, IT IS ORDERED that:

1. San Diego Gas and Electric Company, Southern California Edison Company, and Pacific Gas and Electric Company (PG&E) shall credit revenues from special contracts in the way proposed by PG&E and in the general order described in this decision.

2. This proceeding is closed.

This order becomes effective 30 days from today.

Dated MAY 4 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. Shulman

NEAL J. SHULMAN, Executive Director

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