Decision 90 09 055 SEP 12 1990

BEFORE THE PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

ORIGINAL

Application of Pacific Gas and Electric Company for authority among other things, to increase its rates and charges for electric and gas service. (Electric and Gas) (U 39 M)	Application 88-12-005 (Filed December 5, 1988)
And Related Matter.	I.89-03-033 (Filed March 22, 1989)

(See Decision 89-09-093 for appearances.)

INTERIM OPINION

Summary of Decision

The Petition for Modification of Decision 89-12-057 (Petition), filed February 22, 1990 by Unocal Corporation (Unocal), is denied. Unocal requested that the standby demand charge for transmission level electric customers of Pacific Gas and Electric Company (PG&E) be reduced in order to eliminate a double charging for customers who own or pay special facilities charges for interconnection facilities. The Petition is denied because the rate reduction would be inconsistent with treatment of primary and secondary customers, the exact amount of double charging is uncertain, and partial relief has already been granted by reducing the customer charge.

Background

Unocal's request is made in PG&E's general rate case for test year 1990. That proceeding was litigated during 1989, culminating in Decision (D.) 89-12-057, which authorized electric and gas rates effective January 1, 1990.

Included in D.89-12-057 are electric standby rates as set forth at Appendix I, Page 20. PG&E offers standby service to customers who are regularly supplied with electric energy from nonutility sources. Many such customers are qualifying facilities or cogenerators who require standby service during times when the other sources are not available. Such service is provided under Schedule S--Standby Service. Standby rates include standby demand charges, in dollars per kilowatt (kW) per meter per month, and reduced customer charges for customers who own or pay special facilities charges for interconnection facilities. The standby demand charges are equal to demand charges for regular service under Schedules E-19 and E-20. In addition to standby charges, demand and energy charges for service taken from PG&E are applied from the customer's regular rate schedule.

The standby charges adopted in D.89-12-057 are $0.70 per kW for transmission voltage customers, $2.60 per kW for primary voltage customers, and $3.30 per kW for secondary voltage customers. For standby customers that own or pay special facilities charges for all of their interconnection equipment, the usual customer charge of $500 per month is reduced to $426 per month. Customers who own or pay for most, but not all, of the interconnection equipment can become eligible for the customer charge discount by buying or paying for the remaining equipment.

Unocal first voiced its disagreement with the authorized standby rates by protesting Advice Letter No. 1277-E, in which PG&E filed its rate schedules in compliance with D.89-12-057. On February 9, 1990 the Energy Branch of the Commission Advisory and Compliance Division rejected the protest. On February 22, 1990 Unocal filed the Petition. Notice of the filing appeared in the Commission's Daily Calendar on February 27, 1990. The Commission's Division of Ratepayer Advocates (DRA) filed a response to the Petition on March 7, 1990. On March 23, 1990 PG&E also filed a response.

Position of Unocal

Unocal claims that transmission level customers that own or pay special facilities charges for interconnection equipment are being double charged for those facilities. They pay for the facilities directly, then are double charged because the standby demand charge includes customer costs that are not recovered in the customer charge. In the discussion section of D.89-12-057 the Commission agreed that customers should not be charged twice for the same services or facilities, but that conclusion was not reflected in the adopted standby rates.

Unocal believes the Commission intended to adopt the PG&E proposal to cure the double charge defect. In Exhibits 51 and 91 PG&E proposed that the standby demand charge be $1.20 per kW, reduced to $0.52 per kW for customers who own or pay for all interconnection facilities. PG&E also proposed to reduce the customer charge to include only billing costs based on equal percentage of marginal cost (EPMC), excluding other customer costs related to interconnection facilities.

Unocal admits that the amount of double charging within the adopted standby demand charge of $0.70 per kW per month is less than the amount that would occur if PG&E's recommended $1.20 per kW were adopted. However, the double charge still exists because the standby demand charge includes costs other than noncoincident capacity costs.

Unocal requests that the standby charge for customers that own or pay for interconnection facilities be set at $0.41 per kW, consistent with DRA's $0.70 per kW charge for regular, non-standby service. However, Unocal would not protest an alternative reduced rate of $0.50 per kW.

Position of PG&E

Although PG&E accepts the general principle that customers should not be double charged for the same services or facilities, it opposes the Petition.

PG&E claims that its agreement to a reduced standby demand charge for customers who own or pay for interconnection facilities was contingent on acceptance of PG&E's other rate design proposals. PG&E believes the remedy for subsidization within rate components is to assess full EPMC charges, but the Commission has chosen to move from previous rates toward EPMC charges gradually. This makes some subsidies inevitable.

Inclusion of all transmission level customer costs in the customer charge would yield a customer charge that is unacceptably large. PG&E proposed to recover in the demand charge all the residual customer costs not recovered in the customer charge. However, in D.89-12-057 the Commission rejected PG&E's proposal, instead adopting a standby demand charge based on percentage movement from present rates toward EPMC. This was done consistently among transmission, primary, and secondary level customers. According to PG&E, Unocal in its testimony opposed PG&E's proposal and supported the adopted approach.

Because the adopted rate design philosophy does not explicitly include customer costs in the demand charge as originally proposed by PG&E, modification to exclude directly paid transmission level costs from the demand charge is unnecessary. As well, the customer charge itself has been reduced, providing customers some relief from double charging.

<u>Position of DRA</u>

DRA agrees in part with Unocal. DRA recommends that the alternative standby demand charge be reduced from $0.70 per kW to $0.52 per kW. The $0.41 per kW rate supported by Unocal is taken from DRA work papers and appears nowhere in the formal record. Therefore, PG&E's original recommendation of $0.52 per kW per month in more appropriate.

<u>Discussion</u>

Unocal's argument on the Commission's intent is based on the following paragraph from D.89-12-057 (at mimeo., p. 340):

> "We agree that customers should not be charged twice for the same services or facilities. Unocal has pointed out an inadvertent duplication of charges, and PG&E has responded with a reasonable and workable solution. We also agree that negotiating lower charges with each of its standby customers would be inefficient. However, in the interest of avoiding double charges, we think that customers who are responsible for most, but not all, of their special facilities costs should have the option of assuming full responsibility for those facilities, thus qualifying for the lower charges. With that modification, we will adopt PG&E's proposals."

In that discussion we should have explained more carefully that we were not adopting all of PG&E's proposals. We agree with PG&E that EPMC-based rates are the eventual solution to internal subsidies, but it is important to do so in steps. In adopting a phasing in of EPMC-based rates, we cannot guarantee that all rates will have a uniform relationship to EPMC. Standby rates themselves are a good example of this. The adopted standby demand charge for transmission level customers is greater than an EPMC-based rate, but the adopted demand charges for primary and secondary level customers are less than EPMC-based rates.

Although in D.89-12-057 we adopted PG&E's proposal to reduce the customer charge, providing some relief to special facilities customers, we did not intend to adopt PG&E's recommendations on standby demand charges. To reduce the transmission level demand charge now would be inconsistent with our policy to move gradually toward EPMC-based rates and inconsistent with our treatment of primary and secondary level customers, whose demand charges are lower than EPMC-based charges. Choosing to retain consistent treatment among customers, we will deny Unocal's request.

We are further convinced to deny the Petition by the uncertainty of the amount of double charging involved. For transmission level service the adopted demand charge of $0.70 per kW is higher than the marginal cost of providing service. The difference is due to: (1) recovery of customer costs not recovered in the customer charge, which include the reduction sought by Unocal; (2) recovery of capacity costs not recovered in the adopted peak demand charge, which is lower than an EPMC-based charge; and (3) recovery of the utility revenue requirement in excess of marginal costs, in accordance with regular EPMC principles.

In choosing the $0.70 per kW charge the exact allocation to unrecovered customer costs is not known. If we had adopted PG&E's entire proposal for maximum demand and standby charges, the portion of the standby demand charge attributable to customer costs might be calculated explicitly. However, we did not adopt PG&E's proposed maximum demand charges, and we recognize that the adopted transmission level demand charge may recover revenue shortfalls not recovered in the customer charge. Neither Unocal nor DRA recommend rate reductions explicitly based on the amount of customer costs included in the demand charge. Nor do those parties suggest any technique for calculating the amount of the double charge. We cannot be certain that any of the recommended reductions would exactly eliminate the double charge. This uncertainty adds weight to our decision to deny the Petition.

Lastly, transmission level customers are already granted some relief from double charging by the adopted reduction in the customer charge.

We will deny Unocal's Petition, and we will modify the discussion language in D.89-12-057 to further explain the adopted standby demand charge. Parties may pursue this issue further in the electric rate design window proceeding now scheduled to begin in November 1990.

Findings of Fact

1. To avoid double charging for certain customer costs, Unocal has petitioned to reduce the standby demand charge for

transmission level customers who own or pay special facilities charges for interconnection equipment.

2. Unocal requests the charge be reduced from the adopted $0.70 per kW to $0.41 per kW, but it would not protest a reduction to $0.50 per kW.

3. DRA recommends a reduction to $0.52 per kW.

4. PG&E opposes any reduction, and recommends the Petition be denied.

5. D.89-12-057 adopted maximum demand charges within Schedules E-19 and E-20 that treat customers at all voltage levels consistently. Those charges make substantial progress toward EPMC, but do not reach EPMC.

6. D.89-12-057 adopted standby demand charges within Schedule S that equal the maximum demand charges for Schedules E-19 and E-20.

7. In adopting a phasing in of EPMC-based rates, the Commission cannot guarantee that all rates will have a uniform relationship to EPMC.

8. Granting of the Petition would be inconsistent with the rate design principles adopted in D.89-12-057 and inconsistent with rates adopted for primary and secondary level customers.

9. The exact amount of double charging for customer costs within the standby demand charge is uncertain.

10. Some relief from double charging for customer costs has been granted by reduction of customer charges.

<u>Conclusions of Law</u>

1. Petition should be denied.

2. D.89-12-057 should be revised to further explain the adopted standby demand charges.

INTERIM ORDER

Therefore, IT IS ORDERED that:

1. The last full paragraph of Section X.E.11.f. in Decision 89-12-057 (at mimeo., p. 340) is modified to read:

> "We agree that customers should not be charged twice for the same services or facilities, but only to the extent that customers at different voltage levels are treated consistently. Unocal has pointed out an inadvertent duplication of charges, and PG&E has responded with a solution that is an element of PG&E's proposal that customer costs not recovered in the customer charge be recovered in the maximum demand charge. We will adopt PG&E's proposal for a reduced customer charge, but we will not reduce the standby demand charge for qualifying customers because that would be inconsistent with our treatment of primary and secondary customers.
>
> "We also agree with PG&E that negotiating lower charges with each of its standby customers would be inefficient. However, we think that customers who are responsible for most, but not all, of their special facilities costs should have the option of assuming full responsibility for those facilities, thus qualifying for lower customer charges."

2. Conclusion of Law 172 in Decision 89-12-057 is modified to read:

> "172. Customers who are responsible for most, but not all, of their special facilities costs should have the option of assuming full responsibility for those facilities."

3. In all other respects the Petition for Modification of Decision 89-12-057, filed February 22, 1990 by Unocal Corporation, is denied.

This order is effective today.

Dated SEP 12 1990, at San Francisco, California.

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

Commissioner John B. Ohanian, being necessarily absent, did not participate.

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

NEAL J. SHULMAN, Executive Director