

Decision 82 03 047 MAR 2 1982**ORIGINAL**

BEFORE THE PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

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)

Application 60152  
(Filed December 23, 1980)

Application of PACIFIC GAS  
AND ELECTRIC COMPANY for  
authority, among other things,  
to increase its rates and  
charges for electric service.

(Electric)

Application 58545  
(Filed December 26, 1978)

Application of PACIFIC GAS  
AND ELECTRIC COMPANY for  
authority, among other things,  
to increase its rates and  
charges for gas service.

(Gas)

Application 58546  
(Filed December 26, 1978)

ORDER GRANTING LIMITED  
REHEARING AND MODIFYING  
DECISION (D.) 93887

Applications for rehearing of D.93887 have been timely filed by Pacific Gas and Electric Company (PG&E), California Energy Commission (CEC), California Farm Bureau Federation (Farm Bureau), General Motors Corporation (GMC), City and County of San Francisco, Owens-Corning Fiberglas Corporation, Toward Utility Rate Normalization (TURN), and the Western Mobilehome Association (WMA). Applications or petitions for modification were filed by TURN, PG&E, and Environmental Defense Fund (EDF) and San Diego Gas & Electric Company.

On February 8, 1982, 10 days after the statutory time for such filings, a document entitled "Petition for Rehearing" was filed on behalf of William R. Gaffaney, a purported stockholder of PG&E.

On February 16, 1982 PG&E filed a response to the applications for rehearing and modification filed by the other parties asking that those applications be denied and TURN filed a response to PG&E's applications for rehearing and modification, asking that they be denied.

On February 17, 1982, by D.82 02 120 we stayed ordering paragraph 17 of D.93887 until further order of this Commission and, by D.82 02 075, we modified D.93887 and granted rehearing on the issue of electric rate design, including agricultural rates.

We have carefully considered each and every allegation of error and request for modification in the above-listed petitions and applications and are of the opinion that good cause has been shown to grant additional rehearing limited to receipt of evidence and argument on the issue of the appropriate discount to apply to master meter customers served by Schedules GT and DT. We are also of the opinion that D.93887 should be modified to provide additional discussion on certain issues, findings of fact on all material issues and to correct certain errors which have been brought to our attention.

With respect to some of the points raised by the CEC petition, we believe clarification of the intent of D.93887 is in order.

On the subject of granting added financial incentives to PG&E for its development of "preferred resources," we wish to correct CEC's apparent misapprehension that we have concluded that such incentives are appropriate. As the staff argued in this proceeding, CEC's incentive proposals were unmanageably complex

and required reliance on evidence developed for other purposes and never analyzed for its relevance to the setting of financial incentives. They also raised a serious question by proposing to reward PG&E for preferred resource investment decisions already made in prior years. Further proceedings are essential to determine appropriate baseline assumptions, goals, and reward or penalty levels for a system of financial incentives, as well as to determine whether such a system should be adopted at all.

The same considerations apply to the establishment of incentives for achievement of cost-effective conservation, a subject discussed at length in D.93887. CEC's suggestions for modification of the procedure proposed at pages 148-49 of D.93887 are appropriate subjects for the further hearings now scheduled to commence March 15, 1982. At this time we would only point out the error in CEC's assertion that there were "no serious objections" to the CEC proposal to offer added rewards to PG&E for penetration of its zero-interest weatherization loan (ZIP) program. The staff strongly opposed that proposal due to the lack of any showing as to cost-effectiveness, need, or the mechanics of its implementation.

In the area of conservation program funding, we wish to clarify that D.93887 did not "reject" CEC's three proposed conservation programs relating to residential appliances, streetlighting conversion and commercial incentives. The residential appliance program, in particular, is a well-developed innovative concept which appears to offer potential for substantial cost-effective energy savings. However, consistent with our purpose of allowing PG&E management discretion to establish priorities and allocate resources to maximize conservation achievement, we will not mandate implementation of these or other specific programs.

CEC objects to our discontinuance of the past two years' rate of return penalty for PG&E's failure vigorously to pursue cogeneration potential. We disagree with CEC's assertion that it was meaningless for us to warn that we would reconsider application of a penalty in the event of future poor performance by PG&E. We meant business. Our intervening decision in OIR 2, D.82 01 103 has removed the most serious obstacles to acquisition of substantial cogeneration capacity by PG&E and other California utilities. We expect to see measurable progress made in this area, and we intend to review the appropriateness of imposing a cogeneration penalty in PG&E's 1984 test year rate case.

The CEC, as well as EDF, also expresses concerns for PG&E's resource and supply planning, which reach far beyond the two-year period encompassed by general rate case decisions. Such plans clearly affect the financial needs and planning of the utility over time, but to varying degrees. As an extreme example, a supply project to commence in ten years will have little impact on PG&E's 1982 financial needs. On the other hand, a supply project or conservation program begun this year may have significant impact on PG&E's 1990 financial needs. It is therefore in the long-term interest of ratepayers that PG&E be required to submit its most recent resource and supply plans as part of each general rate application. These submissions should include side-by-side comparisons of the energy and financial impacts of alternative energy supply and conservation programs.

The CEC misunderstands our treatment of PG&E's research, development and demonstration (RD&D) efforts. Much of what PG&E treated as "RD&D" costs for reporting purposes was not RD&D, but neither did PG&E seek to recover all such costs as operating expenses or rate base items. For its RD&D activities, PG&E requested roughly \$38 million in operating expenses and \$5 million

in rate base additions for the test year; the Commission authorized \$8 million less in 1982 expenses than the utility had requested. Recognizing the understandable confusion between accounting and operational definitions of RD&D, D.93887 ordered workshops at which revisions to the definition of RD&D will be addressed. The workshops, the first of which was held February 25, 1982, will also address appropriate guidelines for setting RD&D priorities. In the interim, the Commission ordered PG&E to apply a set of criteria for RD&D planning which the Commission staff already uses to evaluate utility RD&D programs.

CEC complains that D.93887 included no findings related to the CEC proposal to amortize at ratepayer expense PG&E's investments totaling \$133 million in a variety of cancelled or indefinitely delayed power plant projects. The absence of findings reflects the complete absence of evidence as to PG&E's prudence in incurring these costs, a crucial issue in regard to such a proposal. We will add a finding to D.93887 to make this clear. There is merit, however, in CEC's concern that D.93887 gives no guidance as to what additional information is needed in this regard. What is needed is a showing by PG&E, the CEC, or another interested party, which sustains the burden of proving that investments in the subject projects constitute costs prudently incurred by PG&E in the conduct of its public utility business and that it is reasonable to authorize PG&E to recover such investment currently through amortization at ratepayer expense. We wish to clarify that it is not the staff's burden to prove that recovery of these costs is inappropriate; rather, it is up to PG&E or others to come forward in the 1984 rate case with an adequate showing as to the prudence of such investments and the timeliness and reasonableness of amortization.

Of the \$133 million in investments which CEC would amortize, \$126 million is now accounted for as construction work in progress at no expense to the ratepayers, but \$6.7 million is included in rate base as plant held for future use (PHFU). If PG&E seeks to continue PHFU treatment of these costs in its 1984 test year rate case, we will expect the company to offer a positive showing of the reasonableness of such treatment and to bear the burden of proof on this issue.

Therefore, good cause appearing,

IT IS ORDERED THAT,

1. Rehearing of D.93887 is granted, limited to receipt of evidence and argument on the issue of the appropriate discount to apply to customers served by Schedules DT and GT. Said rehearing to be held along with the rehearing granted by D.82 02 075. At said rehearing, PG&E is directed to provide updated evidence of the comparable costs of direct metering and submetering costs of these customers in accordance with ordering paragraph 3 of D.39907 in Case 10273, and a showing of what effect eliminating the customer charge will have on the rates of master meter customers.

2. D.93887 is modified as follows:

(a) The following sentences are added to the first full paragraph on page 209, mimeo.:

"The evidence we find persuasive on this question is witness Cavagnaro's prepared testimony in Exhibit 91 as revised and explained in his oral testimony (official Transcript, pages 7512 to 7558)."

(b) On page 211, mimeo., the last sentence of the first paragraph of Step 6 is corrected to read:

"The G-2 rate should not be more than 3% higher or 3% lower than the G-50 rate."

A.60153, et al. L/rg \*

(c) On page 185-186, mimeo., the reference in the last paragraph to "A.60225" is corrected to read "A.60616."

(d) On page 196, mimeo., the last sentence is corrected to read:

"This recommendation was uncontested at the hearing, although objected to by PG&E in its reply brief, and will be adopted."

(e) On page 92, mimeo., the last sentence under "f. Employee Pension and Benefits" is corrected to read:

"We place PG&E on notice that in the future we will disallow increases in post-retirement insurance benefits."

(f) Ordering paragraph 17 is modified by adding the following language:

"In addition to the material shown on Appendix G, the bill insert shall include, prominently displayed, the following language:

'This message is inserted in your bill by order of the California Public Utilities Commission.'

(g) Finding of Fact 107 is added as follows:

"The record does not support a conclusion that the dues PG&E pays to AGA and Edison Electric Institute are of benefit to its ratepayers. Those payments, therefore, should be disallowed."

(h) On page 159a, mimeo., in the third line from the bottom, the words "and dividend" are eliminated.

(i) On page 158, mimeo., in the tenth line from the bottom, the words "billing envelopes" are substituted for the words "such mailing."

(j) On page 159c, mimeo., in the third line from bottom, the words "letters and reports" are substituted for the words "the Progress."

(k) On page 159d, mimeo., in the second line from the top and in the twelfth line from the top, the words "letters and reports" are substituted for the words "the Progress."

(l) On page 159g, mimeo., before the text now found therein, the following language is inserted:

"A fifth possibility is to disallow all envelope and postage costs associated with mailing customers their bills and shareholders their dividends. These costs have traditionally been treated as legitimate costs for PG&E to recover through the ratemaking process. Such a remedy is unacceptable because it would disallow a cost obviously necessary for the conduct of utility business."

(m) On page 159g, mimeo., the paragraph starting with the words "There may be other possibilities" is corrected to read as follows:

"There may be other possibilities. We invite TURN or any other interested party to file a complaint with this Commission with a proposed solution to this 'extra' space problem. The complaint would seek an order from us to the utilities, such as PG&E, that they utilize the economic value of the 'extra space' more efficiently for the ratepayers' benefit. We caution, however, that we will not lightly adopt such an order and that the considerable First Amendment problems must be fully addressed in such complaint."



(n) In the last line of Finding of Fact 58a on page 220, mimeo., the words "letters and reports" are substituted for the words "the Progress."

(o) Finding of Fact 108 is added as follows:

"CEC's comments regarding additional conservation programs in the area of residential appliance incentives, street lighting conversion and commercial incentives are worthy of consideration by PG&E but, in keeping with the regulatory philosophy of this order, should be left to PG&E's management discretion rather than mandated."

(p) Finding of Fact 109 is added as follows:

"For the reasons stated herein, it is reasonable to set the target level for G-2 rates at the same level as the G-50 rate."

(s) Finding of Fact 19 is modified to read as follows:

"The evidence in this proceeding is inadequate to establish appropriate baseline assumptions, goals, rewards, or penalties for a system of management incentives to encourage investments in preferred alternative resources or cost-effective conservation programs. Further study is needed to determine whether such an incentives system is appropriate and, if so, what form it should take and what standards should be applied."

(t) Finding of Fact 110 is added as follows:

"Information as to PG&E's current resource and supply plans is relevant and helpful in the task of determining the reasonableness of its operating and capital expenditures when those are reviewed in a general rate proceeding."

(u) Finding of Fact 111 is added as follows:

"Amortization at ratepayer expense of PG&E investments in a variety of cancelled or indefinitely delayed power plant projects was not shown to be reasonable."

(v) Ordering Paragraph 19 is added as follows:

"In its next general rate case application, PG&E shall submit to the Commission its then-current resource and supply plans, including comparison of the energy and financial impacts of alternative energy supply and conservation projects."

(w) Ordering Paragraph 20 is added as follows:

"If PG&E seeks to reflect in rates for its 1984 test year any costs associated with its investments in power plant projects not included in its then-current resource plan, PG&E will be required to make a positive showing of the reasonableness of such treatment."

3. The stay of ordering paragraph 17 is hereby terminated. The date by which PG&E shall mail the bill insert as revised by this order is 45 days from the effective date hereof.

4. Except as granted herein and as previously granted by D.82 02 075, rehearing and modification of D.93887 as revised is denied.

This order is effective today.

Dated MAR 2 1982 at San Francisco,  
California.

JOHN E. BRYSON  
President  
RICHARD D. GRAVELLE  
LEONARD M. GRIMES JR.  
VICTOR CALVO  
PRISCILLA C. GREW  
Commissioners

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

  
Joseph E. Bodovitz, Executive Director