Decision 83 02 076 FEB 16 1983

ORIGINAL

BEFORE THE PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

Rulemaking on the Commission's own motion to establish standards for the processing of gas and electric offset rate cases and to revise the current schedule for filing such offset rate cases.	OII 82-09-02 (Filed September 22, 1982)

David F. Follett, Attorney at Law, for Southern California Gas Company; Daniel E. Gibson, Shirley A. Woo, and Steven F. Greenwald, Attorneys at Law, for Pacific Gas and Electric Company; John R. Bury, David N. Barry, Richard K. Durant, and Carol B. Henningson, by Carol B. Henningson, Attorney at Law, for Southern California Edison Company; William L. Reed, Randall W. Childress, and Jeffrey Lee Guttero, Attorneys at Law, for San Diego Gas & Electric Company; and James D. Salo, Attorney at Law, for Sierra Pacific Power Company; respondents.

Michel Peter Florio, Attorney at Law, for Toward Utility Rate Normalization; William E. Swanson, for Energy Program Office, Stanford University; Harry K. Winters, for the University of California Regents; and Brobeck, Phleger & Harrison, by Gordon E. Davis, William H. Booth, and Richard C. Harper, Attorneys at Law, for California Manufacturers Association; interested parties.

Michael B. Day, Attorney at Law, and Bill Yuen Lee, for the Commission staff.

O P I N I O N

This rulemaking investigation was begun under Rules of Practice and Procedure, Article 3.5, to establish standards for the filing and content of gas and electric offset rate applications and to revise the current procedures and schedules for the filing of those applications.

In Order Instituting Investigation (OII) 82-09-02, we stated that our recent experience with the Energy Cost Adjustment Clause (ECAC) procedures has led us to conclude that frequent rate revisions (three times annually) have strained the ability of the staff to assign sufficient personnel to each offset application. We alluded to instances where offset cases were decided months after the revision dates because of insufficient staff to review the applications in a timely manner.

We also mentioned that current procedures have complicated efforts to stabilize rates. Three electric offset proceedings each year, together with general and other rate changes, have produced volatile gas and electric rates, which increase or decrease greatly as fuel costs and resources change. These swings impose hardships on families and businesses that attempt to budget their energy expenses over an entire year.

Because of these concerns, the staff on March 24, 1982 sent a proposed resolution to the major electric and gas corporations suggesting a new schedule for the filing of gas and electric offset applications. The utilities responded with written comments. The staff considered these comments in drafting its final proposal, which was attached as a staff report[1/] to OII 82-09-02 and was mailed

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1/ By letter of October 4, 1982, the staff submitted to the utilities and other interested parties a new Exhibit A to its report. The corrected version, as modified at hearing, is Appendix A to this decision.

to Pacific Gas and Electric Company (PG&E), Sierra Pacific Power Company (SPPC), Southern California Edison Company (Edison), Southern California Gas Company (SoCal), San Diego Gas & Electric Company (SDG&E), Toward Utility Rate Normalization (TURN), and Chadbourne, Parke, Whiteside & Wolff. In OII 82-09-02 the Commission invited written comments on the staff's final proposal to be filed by November 8, 1982.

Petition for Extension of Time

On October 20, 1982, Edison filed a petition for extension of time to file its comments. Edison asked that it be allowed to file its comments within 60 days after the Commission acted in OII 82-04-02. That proceeding is an investigation into regulatory procedures that should provide appropriate management incentives and disincentives to utility management of fuel costs. Hearings were held in OII 82-04-02 in August and September 1982, and it was submitted September 28, 1982, subject to the receipt of concurrent briefs on October 29, 1982. Edison argued, in summary, that its comments in OII 82-09-02 would depend on the Commission's action in OII 82-04-02. PG&E and TURN, by response filed October 25, 1982, and letter dated October 26, 1982, supported Edison's petition for extension of time. By ruling filed November 1, 1982, Administrative Law Judge (ALJ) Baer denied Edison's petition "in the interest of establishing a revised schedule for filing gas and electric offset cases near the beginning of 1983."

Comments and Oral Argument

On or before November 8, 1982, PG&E, TURN, Edison, SDG&E, and SoCal filed comments on the staff's revised proposal. SPPC sent a letter stating that it had no general or specific objections to the six major procedural reforms in gas and electric rate cases proposed by staff.

As required by OII 82-09-02, oral argument was scheduled after the receipt of comments and was set for December 10, 1982. Before that date, on December 8, 1982, PG&E filed a second set of comments to emphasize that ECAC procedures must be tailored carefully to address the tremendous cost fluctuations that PG&E's heavily hydro-dependent system experiences simply because of weather differences from year to year.

Oral argument was held December 10, 1982, before ALJ Baer. Staff, Edison, PG&E, SPPC, SDG&E, SoCal, and TURN presented opening and closing arguments and the matter was submitted.

Background

ECAC is the successor procedure to Fuel Cost Adjustment (FCA) tariff provisions adopted for each of the major electric corporations beginning in 1972. On March 18, 1975 we instituted an investigation in Case 9886 into the operation of the FCA provisions. This investigation culminated in Decision (D.) 85731, which substituted ECAC for the FCA program. In D. 85731 we discussed the policy consideration that supported the original FCA procedure, as follows:

> ". . . The FCA was originally adopted because in an inflationary period, with rapid changes in the cost of fuel, an expedited method is required to permit a utility to recover these costs so its ability to function is not impaired; because such an expedited proceeding will lessen the frequency of general rate cases; and because it enhances a utility's position in the financial community."

As a result of that investigation we found the FCA to be inadequate because the average year forecast type of fuel clause did not accurately match fuel clause revenue with associated increased fuel costs, particularly in the comparatively short term. We therefore concluded that the FCA should be abandoned because of this inherent defect and because it generates controversy and

litigation over the use of estimates and forecasts. In its place we adopted ECAC.

ECAC was different from the FCA in several respects. Whereas the FCA applied only to fossil fuels, ECAC included all self-generated and purchased power. Instead of the average year forecast method, ECAC was based entirely on recorded data. We included in ECAC a balancing account that would track the revenues and expenses and allow for periodic adjustments to provide for nothing more or less than dollar-for-dollar recovery.

Four years after ECAC was established in D.85731 (April 27, 1976) we instituted an investigation in OII 56 on August 14, 1979. That investigation culminated in D. 92496 (December 5, 1980) in which we concluded that certain procedural changes in ECAC were appropriate, largely because of serious undercollections that had resulted under ECAC. The original ECAC procedure was based on recorded data. An interim D.91277 in OII 56 modified ECAC to a more forward-looking basis. In D.92496 we made those changes permanent. Those basic changes are as follows: From semiannual to triannual revisions; from recorded to estimated resource mix; from recorded to estimated prices; from recorded to estimated sales; from recorded to estimated balancing account balance. We made other changes as well. Since only reasonably incurred fuel cost should be recoverable in ECAC, we ordered that the reasonableness of recorded fuel cost should be examined in an annual review of each utility's operation. We also adopted a change in the franchise fees and uncollectible expense allowance and made permanent the interest rate calculation we adopted in interim D.91269. Also in D.92496 we adopted a provision to exclude 2% of the estimated annual fuel cost from ECAC and to include in an Annual Energy Rate (AER) this 2% together

with the carrying cost for an authorized level of oil inventory, underlift charges, facility charges, and gains and losses from the sale of oil. We also established for PG&E, SDG&E, Edison, and SPPC a schedule which would require three proceedings each year at which time revisions could be made to rates to accommodate changes in energy expenses. One of these proceedings would be the annual review for determining the reasonableness of utility operations. We staggered these reviews in order to distribute the workload for the staff, as follows:

PG&E: August 1
SDG&E: November 1
Edison: May 1
SPPC: February 1

Since the establishment of the annual reasonableness review, each utility has experienced at least one such proceeding. In a reasonableness proceeding the AER has been determined for a prospective 12-month period. Five such proceedings for the four major utilities have been held and five ECAC/AER decisions have been issued, but only one of the five decisions was issued in time to take effect on or before the scheduled revision date. The other four decisions lagged from two to five months beyond the revision date.

The staff attributes much of the delay in the issuance of ECAC/AER decisions to late receipt and review of additional utility data required by the staff over and above that included in the application, which is filed 60 days prior to the revision date. Although specific time schedules are set by mutual agreement of staff and the utility, there are always last minute circumstances that delay the decision. In establishing the schedule of three revision dates each year, of which one is also the annual reasonableness review, it was not anticipated that

there would be any overlap in processing the utility's applications. However, overlaps do occur, as Edison's ECAC/AER proceeding with a May 1, 1981 revision date shows. In that case the decision was not issued until October 20, 1981; and on the same day we authorized an ECAC revision for the September 1, 1981 revision date for Edison. In Edison's most recent ECAC/AER reasonableness proceeding an interim decision was issued before the May 1, 1982 revision date. However, a decision on reasonableness had not been made by the time of Edison's ECAC filing on June 2 for the September 1, 1982 revision date. The decision on reasonableness was finally issued on January 19, 1983.

Staff's Proposal

Because of the problems in meeting the existing schedule of triannual revision dates, the staff proposes to revise the schedule for processing of gas and electric offset rate applications, as follows:

1. Gas and electric annual review proceedings would be combined for PG&E's gas and electric departments and for SDG&E's gas and electric departments.

2. The number of filings would be reduced from three to two per year. One filing would be the annual reasonableness review combined with the ECAC revision and the setting of the AER rate. The second filing would be an ECAC revision. A trigger mechanism would determine whether or not the second filing should be made.

3. Electric rates set during the annual review would be based on a 12-month forward-looking test period. If it should become necessary to revise these rates before the end of a 12-month period, a 6-month test period would be used for the revised rates.

4. The record period would end six months before the ECAC/AER revision date in order to allow more time for processing annual reviews.

5. When semiannual ECAC filings are necessary, they would be given expedited treatment. The utility would only be required to file its application 60 days before the revision date, and the staff would ordinarily not prepare a report.

6. A formal schedule is proposed for processing annual review cases. The schedule calls for a large part of the staff work to be completed before the application is filed and requires that the application be filed 102 days before the revision date, rather than the present 60 days.

The staff's schedule of revision dates is shown in Exhibit A to the staff's report. It is a one-page matrix showing existing revision dates, dates proposed in staff mailings before OII 82-09-02 was issued, and the staff's current proposal. Small numbers at the beginning of the lines representing the staff's proposed AER schedule indicate the day of the month when the utility application should be filed. (See Appendix A.)

The staff's annual ECAC review schedule as revised by the staff after considering the comments of the utilities and other parties is attached as Appendix B. The schedule begins on Day -78, when the record period is closed, and ends at Day 116, when the new rates should be effective. After considering the comments of the utilities, the staff revised its schedule in several respects. It set aside Day 11 for a prehearing conference. Parties should be prepared to make their data requests at this time and the ALJ should schedule the time, date, and place of hearings, identify parties and witnesses, and define the issues.

The staff has also added at Day 30 an opportunity for the utilities to make a limited update of their data. The data to be updated will be restricted to fuel mix and fuel price changes and the current account balance. The staff believes that only these items are relevant to establishing the AER and ECAC rates.

The staff has also added an additional week of hearing time by extending the Days 40-55 to Day 62. This extension is at the option of the ALJ. If the additional time is not required, then the ALJ may order briefs according to the original schedule. Another week has been added for reply briefs at the option of the ALJ.

In addition to the above changes the staff proposes that the Executive Director and the appropriate Division Director may recommend to the assigned Commissioner whether or not to grant interim rate relief if the proceeding is not concluded in time to issue a decision on the entire case by the revision date.

As to gas operations, the staff recommends that only the reasonableness of PG&E's and SDG&E's gas operations will be addressed during the annual reasonableness review. Gas pricing

will continue to be tied to the Consolidated Adjustment Mechanism (CAM) hearings. The staff proposes to implement the new schedule with Edison's February 5, 1983 filing, unless this decision is issued after December 31, 1982. If that occurs, the schedule should begin with PG&E's April 7, 1983 filing, which has a revision date of August 1, 1983.

Position of Edison

The position of Edison was stated in argument by Edward A. Myers, Vice President of Communications and Revenue Services. Myers addressed four specific points, one of which was satisfied by the staff's revised presentation and, therefore, will not be discussed here. First, Myers recommended that the Commission hold further hearings in this proceeding to address the impact that the Commission's decision in OII 82-04-02 would have on the economics of scheduling. This recommendation was due to Edison's assumption that Commission would grant the staff's proposal to allocate a larger percentage of fuel costs to the AER.

Second, Edison believes that the Commission should not abandon the three revisions per year schedule authorized under the current ECAC procedure. Edison argues that in OII 56 we recognized that the two revisions per year procedure was causing wide swings in rates and that that is the reason the Commission went to three revisions per year. Edison contends that nothing has changed, that more frequent, rather than less frequent, rate revisions will promote stability, and that staff's proposal to revert to two revisions per year should be denied.

Third, Edison believes that the reasonableness review should be separated from the rate revision process. It points out that the reasonableness review is a retrospective operation looking at recorded data, while the rate revision aspect of the annual review

is truly prospective. Edison believes that separating the two aspects of the annual review proceeding would alleviate the current strain and time pressure on the staff by focusing the scope of its review either on the record period for the reasonableness review or on the forecast period for the ECAC rates.

Myers had additional comments on some other features of the staff's proposal. First, Edison believes that consolidating the revision date for combination gas and electric utilities is a good idea. However, Edison is not a combination utility and receives all of its gas from SoCal. It would like the Commission to consider that if SoCal is on a different schedule than Edison and SoCal receives rate increases similar to those that they have just received, there should be some way that Edison's costs, which are based largely on SoCal's costs, may be updated and reflected in Edison's rates. Furthermore, Edison opposes the staff's trigger mechanism, because a 5% trigger in Edison's case equates to a $200 million increase, which is almost one-half of a cent per kilowatt-hour (¢/kWh) to Edison's ratepayers. Edison believes that instead the Commission should maintain the three revision dates per year. Finally, Edison states that while it has a smaller percentage of company-owned hydroelectric generation in its system than does PG&E, Edison is also very dependent on hydro-based purchased power. Fluctuations in the cost of its generation because of purchased power and company hydrogeneration could be as much as a $500 million increase or a $300 million decrease in the balancing account. This $800 million spread reflects in the consumers' bills very heavily. Since Edison is hydro-dependent, either on its own hydrogeneration or on neighboring systems, Edison believes that it is important to have current data to forecast hydroelectric production for the year. It claims that the staff's timing does not

allow a current view of the prospective hydroelectric generation for the coming year and that this will necessitate using average year conditions.

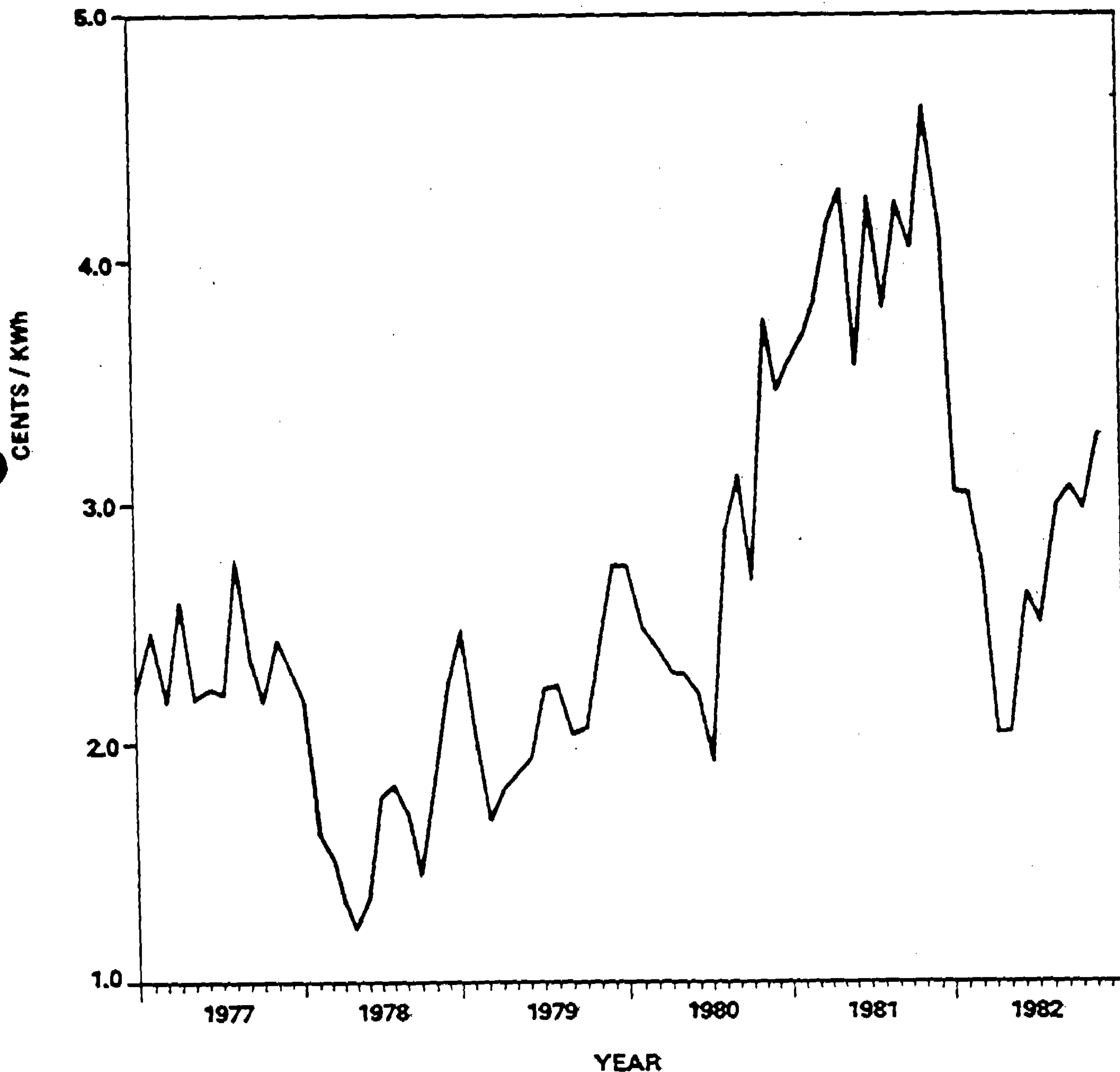
PG&E's Position

PG&E first urges in two sets of written comments and oral arguments that the Commission not rush to adopt the staff's proposal. PG&E believes that the modification of the ECAC procedure should proceed along traditional lines with evidentiary hearings or at least workshops. It points out that OII 56, out of which the current ECAC procedure arose, involved many days of hearing over a period of a year and a half but that this proceeding has not allowed the taking of evidence nor the cross-examination of witnesses. Secondly, PG&E believes that the Commission staff has focused primarily on changes in fossil fuel prices in designing its ECAC procedures and has ignored completely the other significant reason for energy cost fluctuations: the availability of large amounts of hydro-generation in the PG&E system. PG&E used certain graphic displays to demonstrate the impact on energy cost that both fuel prices and hydro-availability produce. Graph 1 plots energy costs in ¢/kWh against months for the years 1977-1982.

GRAPH 1

PACIFIC GAS AND ELECTRIC COMPANY

ECAC UNIT ENERGY COST



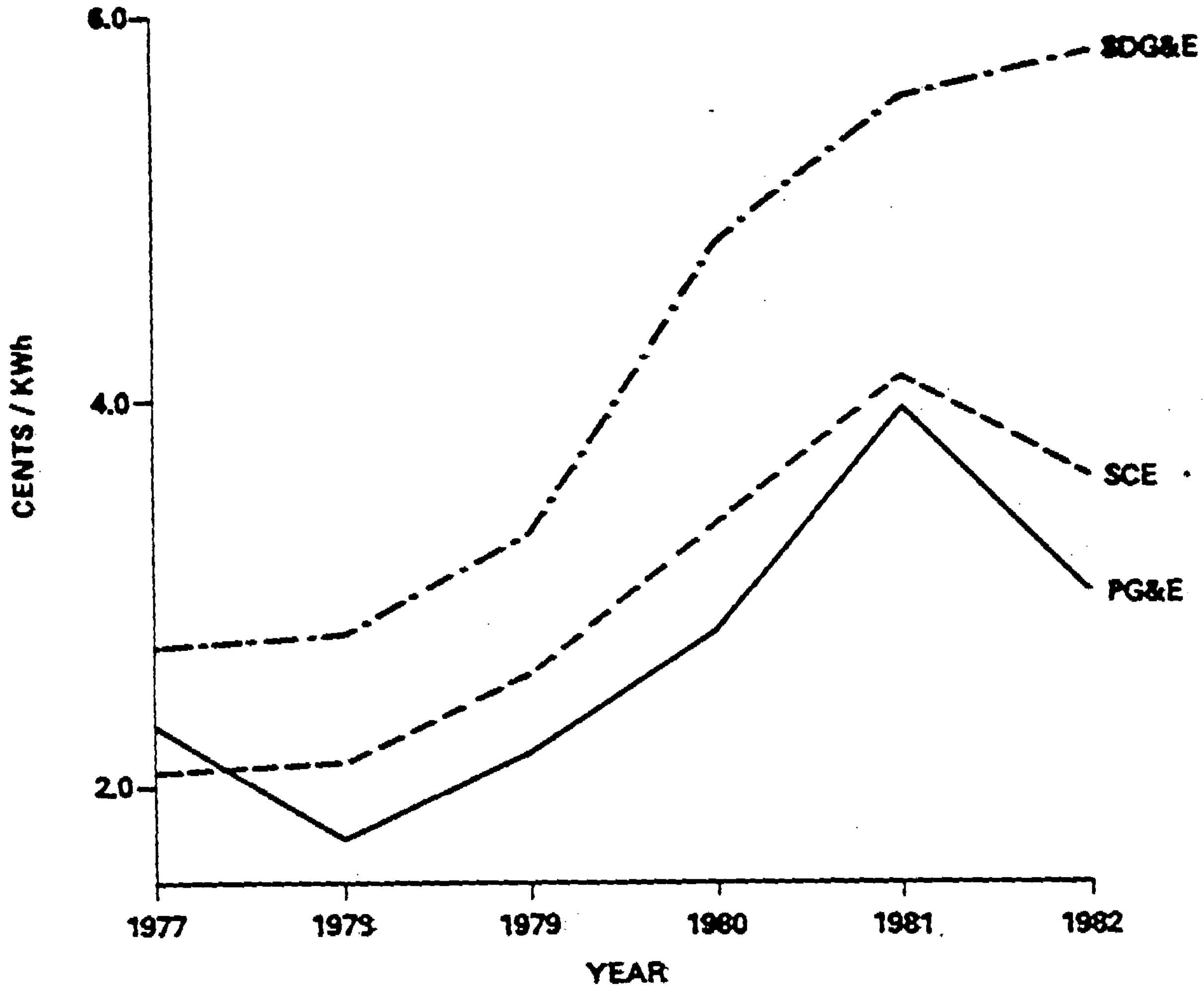
By inspection of the graph, it can be seen that, despite sharp fluctuations in energy cost, over time the general trend has been toward dramatic increases in unit energy cost between 1977 and 1982. From a low point of just over 1¢/kWh in mid-1978, energy cost per kWh increased to over 4½¢/kWh in early 1982. Despite the generally upward trend in energy cost, energy costs were still subject to severe seasonal fluctuations due to the impact of hydroelectric generation. The graph is also useful because it shows the extreme years: 1977, a drought year, and 1982, a record hydro and precipitation year. The remarkable effect of hydro-availability is demonstrated from the chart by the fact that the cost per kWh in mid-1982 was lower than at any time in 1977. This is significant because in 1977 oil cost about $15 per barrel and natural gas cost about 22¢ per therm. In 1982 oil cost about $38 per barrel and gas cost about 40¢ per therm. PG&E's least cost generation strategy, using as much low cost hydroelectric power as was available, produced a lower unit energy cost in mid-1982 than at any time in 1977.

In Graph 2 PG&E compares its experience with the energy cost of Edison and SDG&E over the years 1977 through 1982.

GRAPH 2

PACIFIC GAS AND ELECTRIC COMPANY

CALIFORNIA ELECTRIC UTILITIES
ANNUAL UNIT ENERGY COST COMPARISON



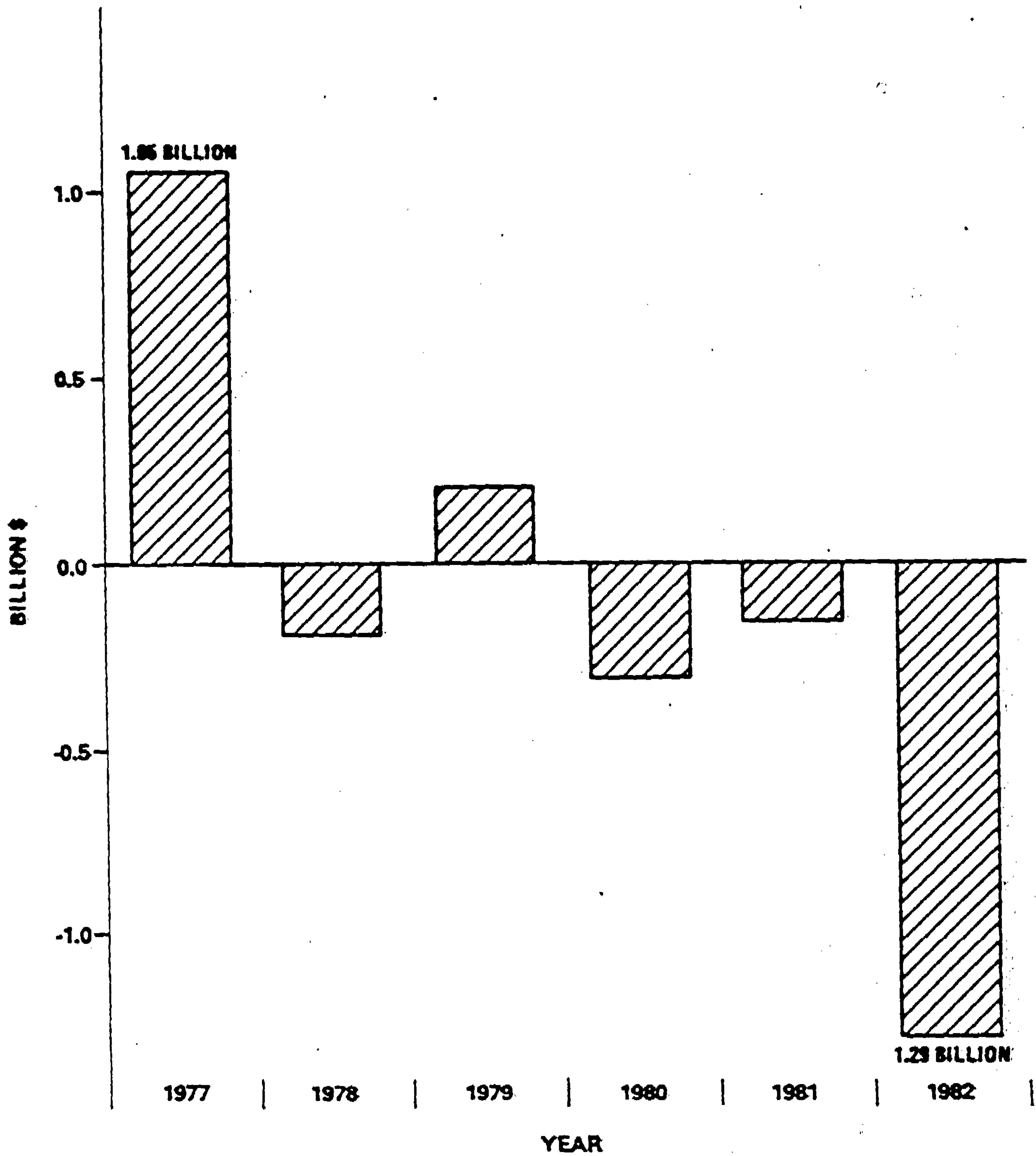
In this graph the data is plotted on an annual basis and thus monthly fluctuations are not perceptible. The graph does show that PG&E experienced a strong increase in cost per kWh for 1978 through 1981 driven predominantly by the increase in fuel costs. The declines in unit costs between 1977 and 1978 and between 1981 and 1982 result from average or better than average hydro years in 1978 and 1982. Edison's performance shows similar characteristics although not as dramatic as PG&E's. SDG&E's experience is quite different from Edison and PG&E because it is able to use only a minimal amount of hydropower. Consequently, SDG&E has endured constant increases in its unit energy cost even during the 1982 high hydro year. PG&E argues that in drafting an appropriate ECAC procedure for SDG&E the drafter may properly look only to the causes of fuel cost increases and need not necessarily be concerned with generation mix. However, with PG&E and Edison generation mix is a large factor.

PG&E's third graph is entitled Potential Hydro Impact on Energy Cost. PG&E's assumptions underlying Graph 3 are set out in Appendix C.

GRAPH 3

PACIFIC GAS AND ELECTRIC COMPANY

POTENTIAL HYDRO IMPACT ON ENERGY COST



The graph is intended to show that in any given year, depending on hydro-availability, energy costs can swing more than one billion dollars in each direction. The bar for 1977 shows that energy costs were $1.05 billion more than would have been expected in a normal year due to drought conditions during 1977. The bar for 1982 shows that energy costs were $1.29 billion less than they would have been in a normal year. It follows from the graph that if a drought year and a high hydro year occurred back to back the swing in energy cost could approach $2 billion. PG&E believes that for a system that experiences these extreme cost variations, independent of increases in fossil fuel prices, the Commission must design an ECAC mechanism with sufficient flexibility to resolve those problems. PG&E believes that the staff's proposal does not address the problems on PG&E's system. While it continues to recommend further hearings or workshops be scheduled to explore thoroughly the alternatives to the staff's proposal, PG&E does recommend as an alternative, if the Commission is determined to adopt a new ECAC structure at this time, that the staff's proposal be modified in three ways. First, PG&E notes that the staff's proposal calls for an annual adjustment of the ECAC revenue requirement and a single rate change. To avoid astronomical rate changes that could occur

when drought years or high hydro years are succeeded by normal years, PG&E recommends that the Commission retain the discretion to phase in any such rate change over the ECAC test year. Second, PG&E contends that the trigger mechanism as proposed by the staff is too restrictive for PG&E and that the 5% trigger is too high. Since the staff has conceded that the semiannual proceeding would be expedited and would look only at balancing account information, PG&E argues that additional trigger proceedings could be scheduled with slight burden to the utility and staff but with great advantages in the Commission's ability to manage rates throughout the year. Third, PG&E believes that the AER and reasonableness review proceeding be segregated from the setting of ECAC rates. PG&E believes that the inherent difficulties of the AER and reasonableness review proceeding have resulted in slippage of the revision dates.

Position of SPPC

In mid-1982 SPPC was allowed to enter into the Intercompany Power Pool and Northwest Power Pool, largely because it acquired service territory previously served by CP National. As a result of its access to those power pools, SPPC now has a direct channel through which it can acquire surplus hydroelectric energy when it is available; and SPPC has benefited this last year from that hydroelectric energy. Since internal hydroelectric generation makes up less than 2% of SPPC's total generation, hydro has not been a major factor in determining ECAC rates. However, SPPC's system is now much more affected by the vagaries of hydroelectric energy availability.

Under the staff's proposal SPPC would file its annual AER/reasonableness review application on September 7, with a January 1 revision date. SPPC points out that by the

fall of the year it does not have enough weather data to know whether the coming winter will be wet or dry. This could result in a situation in which the data that would be reflected in the reasonableness review proceeding simply would not be current enough to form a reliable base for projecting the future. Instead when SPPC files its application in the annual reasonableness proceeding on September 7 it would have weather data only for the summer months and the preceding winter months upon which to base projections of weather for the coming year beginning January 1. Without current knowledge of the potential hydro resources that would be available to it, SPPC could not project reliably the percentage of purchased power that would be in its energy mix.

SPPC recommends that the filing dates for its annual review and its semiannual ECAC proceeding be switched, that is, that the annual reasonableness review application be filed on May 1 rather than September 7.

Position of SDG&E

SDG&E first comments on staff's proposal to combine the annual reasonableness proceeding for SDG&E's gas and electric departments. SDG&E notes that it buys all of its gas from SoCal at rates set by the Commission; that it has not had in recent history a CAM reasonableness review; and that there is no reason to begin one now. Insofar as its gas operations are concerned, since SDG&E has but one supplier and since the price of that gas is set by the Commission in SoCal's rate proceeding, there is nothing to review in connection with the reasonableness of its gas operations. SDG&E reminds us that the Commission has for quite some time provided for SDG&E's CAM applications to be filed in response to SoCal's CAM applications. In fact, under current

procedure SDG&E's tariff provides for it to file its CAM applications five days after SoCal files its application and to use the same revision date as SoCal. In the last two years the Commission has consolidated SDG&E's and SoCal's CAM proceedings and has issued concurrent decisions. SDG&E believes that that is an appropriate procedure and should be continued.

SDG&E observes that the staff's proposal has moved the filing date for the AER/reasonableness review proceeding for electric operations 116 days in advance of the revision date. SDG&E believes that if it were required to make its CAM filing at the same time as it made its AER/reasonableness review filing, it would not have good data on gas prices available at the time of filing. Once SoCal knew what its Federal Energy Regulatory Commission's (FERC) suppliers were going to charge and filed its application, then SDG&E could respond by filing an amendment to its CAM filing. However, SDG&E has no desire to file an application and then amend that application a short time later. This procedure would have the potential of requiring two notices, two filings, and two exposures to the public and press for a single rate change. SDG&E believes that the Commission should not change the current procedure in which SDG&E's CAM is filed in response to SoCal's CAM and aimed at a concurrent revision date. However, if the Commission should adopt the staff's recommendation that SDG&E's CAM and ECAC filings should be combined with the filing date moved far in advance of the revision date, SDG&E should be allowed to amend that filing once the SoCal filing is made and once the FERC-regulated suppliers' rates are known.

SDG&E now turns to more specific criticisms of the staff's processing plan for the AER/reasonableness review. SDG&E observes that the staff's field audit is now scheduled to take place

between days - 21 and - 7 just prior to the filing of the application. That is the same period during which utility personnel are involved in putting together the application and in the opinion of the utility is not a good time to be involved in field audits with Commission staff. SDG&E recommends that the schedule be changed so that the field audit commences immediately following the filing date.

Second, SDG&E is concerned that the record period that is subject to staff review in the reasonableness proceeding ends June 30, while under the staff's proposal SDG&E would be expected to file its application on July 8. SDG&E states that eight days between the end of the record period and the filing of the application are inadequate time to prepare the application and recommends that the record period be moved back at least one month and preferably two months so that an appropriate interval will be allowed between the close of the record period and the filing date.

Third, SDG&E believes that different numbers of revisions should be allowed for different utilities or for the same utilities under different conditions. SDG&E does not believe that there is any sound basis for concluding that all utilities must have the same numbers or types of revisions or schedules. According to the SDG&E's spokesman, under certain conditions SDG&E could easily get along on two revisions a year. However, in extreme years there might be a need for a third or more revisions, whereas under some conditions it might be possible to waive even the second filing. SDG&E concedes that its resource mix is probably better suited than that of either Edison or PG&E to accommodate staff's proposal and even to forego the optional revision in certain years. SDG&E concludes that the Commission does not need to provide for any rigid schedule of two or three revisions per year.

Position of SoCal

SoCal believes that increases in the cost of purchased gas should be minimized. It contends that tardy rate changes needlessly increase the cost associated with these purchased gas increases by millions of dollars. The single most important step to remedy this unfortunate consequence because of delay is for the Commission to authorize offset rate relief which is concurrent with the increases in the cost of purchased gas. According to SoCal, concurrent rate relief would greatly reduce the interest costs caused by large undercollections. Timely rate relief in offset cases would also benefit the consumer by minimizing the utility's short-term debt borrowings. SoCal contends that these borrowings negatively affect capitalization and other financial ratios and thus the utility's bond ratings and ultimately its cost of capital. Additional costs are paid by the ratepayer in the long run.

While SoCal agrees with the staff's objective of streamlining the offset procedures, it believes that staff's proposed May 1 and November 1 rate revision dates for SoCal would operate to insure that FERC's authorized increases in the cost of gas, which go into effect April 1 and October 1, are never concurrently offset in rates. Even if everything else went exactly according to the staff's proposed schedule each year, there would be at least two months of lag between FERC's authorized increases and the Commission's offset decisions. However, SoCal contends that the lag problem inherent in the staff's proposed schedule can be resolved if two things are done. First, if the Commission adopts staff's proposed CAM revision dates for SoCal, the Commission should also expressly authorize the CAM revenue requirement to include the estimated CAM balance as of the revision date. Use of an estimated balance will reduce undercollections and thus

benefit the ratepayer. Secondly, the Commission can also temper the problems associated with undercollections by expressly permitting SoCal to include in its semiannual CAM filings the effect of FERC's authorized cost increases which are already known but which will become effective before CAM revision dates. SoCal illustrates its second point by the following example: On October 15, 1982, El Paso filed a general rate increase application with FERC. Even if these rates were to be suspended by FERC for the maximum statutory period, they will still go into effect on April 15, 1983, just two weeks after SoCal's current revision date of April 1, and thus under present procedures would not be includable in the April 1 balance. SoCal believes that these increased costs should not be deferred until its October CAM filing, which is nearly six months after the increase from El Paso would have been incurred. If such deferral does take place, SoCal's customers will be faced with an unnecessary interest expense resulting from the undercollection.

SoCal's final recommendation is that the Commission should adopt a procedure which recognizes that it may become impossible, for reasons beyond the Commission's or SoCal's control, to adhere to the proposed CAM processing schedule. SoCal believes that the Commission should express its intent to grant 90% of the requested offset rate relief, subject to refund, on the revision date, or at least no later than the Commission's first regularly scheduled conference thereafter. This provision would be invoked if the staff's proposed schedule were to slip substantially. Once hearings are concluded, the Commission could then issue a final decision on the entire request, including the remaining 10% of the gas cost increase.

Position of TURN

TURN agrees with the utilities that recommend that the annual reasonableness proceeding which reviews recorded data be separated from the ECAC/AER proceeding which relies on forecasted data. TURN believes that if the Commission wants timely rate revisions the best way of achieving that is to provide for a separate annual reasonableness review. TURN also suggests that the staff's proposed schedule be adopted by the Commission as the schedule for the reasonableness review but that that schedule should start on the revision date for the ECAC and AER rates. In that way the annual reasonableness review would follow the ECAC/AER proceeding and we would be looking backward and having the retrospective review of the same year for which the ECAC/AER forecast was adopted the previous year. Removing the reasonableness issues from the ECAC/AER forecast proceeding will allow a more concise schedule for the forecast cases. TURN suggests that these cases could be cut back to a 90-day schedule and that the shorter schedule would allow better data upon which to base the rates, which, at least in the case of the AER rate, are going to be base rates, not subject to later revision.

TURN supports the staff's proposal to go to two ECACs per year with one of those proceedings subject to a 5% trigger. TURN recognizes that there is always a choice between larger rate changes or more frequent rate changes. TURN believes with the staff that rates should be changed less frequently and that if large changes are necessitated by the less frequent schedule, such changes can be explained simply on the basis of weather and hydro availability.

We shift now to TURN's particular observations regarding the staff's proposed schedule. TURN notes that the staff's schedule allows staff involvement in a particular annual reasonableness review

proceeding well before the actual filing date, and TURN believes that it would be helpful if the interested parties who traditionally participate in these proceedings could also get a head start. TURN has some suggestions for accomplishing this. First, it requests that interested parties be allowed to receive the uniform monthly fuels and operations report that the staff has been developing in cooperation with the utilities. Second, TURN notes that the staff's schedule shows that between Day -66 and Day -45 informal conferences to discuss draft data requests may be held with applicant, staff, and any interested parties. TURN believes that it would be helpful if the parties that normally participate in these cases could join the staff in getting involved at the earliest possible date to help move things along. However, TURN has never been notified of these informal conferences nor has it been invited to attend them. Third, TURN notes that the staff's schedule provides that formal data requests to the utility are due on Day 5; and formal data responses from the utility are due on Day 15. TURN assumes that these benchmarks apply to the staff data requests and responses to staff data requests, observing that frequently interested parties do not receive a copy of the application until Day 5 and therefore could not comply with this schedule. TURN suggests that the schedule requirement of responses within 10 days be made applicable to data requests by parties other than staff.

TURN concurs with the staff that the annual reasonableness review be combined for the gas and electric departments of PG&E and SDG&E. However, TURN does not believe it is desirable to combine totally the gas and electric rate offsets associated with the annual reasonableness review. Therefore, in TURN's opinion the gas offset proceeding should not be combined with the annual reasonableness review and the setting of ECAC and AER rates at that time.

Finally, TURN applauds the staff's proposal to use a 12-month forecast period and a 12-month amortization period in the annual forecast case, observing that one of the biggest issues that has delayed these cases has been argument over amortization periods.

Discussion

Goals

In determining an appropriate schedule for energy offset cases, we should first explore the purposes the ECAC procedure should serve. The purposes we decide to emphasize should relate to the schedule we adopt.

In OII 82-09-02 we indicate that the current ECAC procedure was established in OII 56 "in the belief that frequent rate revisions would guard against significant over- or under-collections in energy expenses." Thus, one purpose that an ideal ECAC procedure might serve would be prevention of over- or under-collections of energy expenses. We also state in OII 82-09-02 that frequent rate revisions under current ECAC procedures (three per year) "have complicated efforts to stabilize rates." Thus, rate stabilization is a purpose that we could choose to emphasize in designing an ideal ECAC procedure.

Another goal is ease of administration. In OII 82-09-02 we stated that "[r]ecent experience with the...ECAC procedures... leads us to conclude that such frequent rate revisions have strained the ability of the...staff to assign sufficient personnel to each offset application." Thus, whatever procedure we adopt should allow the staff adequate time to administer it.

Various of the parties have stated what they believe the goals or purposes of the Commission should be in establishing an ECAC procedure. SoCal states that it agrees with the Commission's aims and identified goals in conducting this OII. It understands them to be:

1. To use more efficiently a staff that is strained by present procedures;

2. To contribute to rate stability, and thus allow consumers to estimate their future bills more accurately;

3. To process applications and arrive at decisions in a timely manner in order to maintain utility financial health and to give timely price signals to the consumers.

SoCal believes these goals are being met by the current ECAC procedure, but that that procedure could be improved by separating the reasonableness review from the rate revision procedures.

PG&E assumes that the goals of ECAC are: (1) to match prices paid by ratepayers with actual costs; (2) to maintain the financial integrity of the utilities; and (3) to minimize the magnitude of both over- and undercollections in the balancing account.

SDG&E believes that the goals of the ECAC process are to allow for timely adjustments, which will in turn prevent balancing account over- and undercollections and the effects they have on rate stability and the utility's financial flexibility. SDG&E notes, however, that it is arbitrary to determine that rate stability would be promoted simply by reducing the number of filings.

SoCal supports the goal of reducing excessive balancing account undercollections and supports the staff's revisions with SoCal's modifications if it is determined that such a plan would reduce undercollections.

TURN approves the staff's goal to maintain rate levels for a longer period of time by having less frequent changes, but it notes that there is always the choice between less frequent larger rate changes or more frequent smaller rate changes. TURN believes that a balance must be struck

between the number of rate changes and the size of those changes. Implicit in its statement is the conclusion that frequent changes lead to small changes whereas infrequent changes lead to large changes. But on balance it agrees with staff that "it may be time to move in the direction of more stable rates and less frequent revision and see how that works for the time being."

Rate Stabilization

Rate stabilization is a goal frequently invoked for the ECAC process; however, it may be understood in different ways. On the one hand energy rates would be most stable if they were changed no more frequently than base rates. That is, every two years, as part of a general rate proceeding, energy rates could be set for the future and under- or overcollections could be amortized over the succeeding two years. Thus, rates would be stable for two years, but there would be a great potential for large adjustments to occur every two years when base rates, energy rates, and amortization rates are combined. Rates would be stable over time but the magnitude of increases even every two years might be so great as to cause other problems.

On the other hand energy rates could be changed monthly, weekly, or daily. These kinds of changes would result in almost imperceptible rate increases and decreases in the short run. While the rates would not be "stable", i.e. constant over a long period of time, as in the first case, they would at least not produce major increases and decreases nor large over- or undercollections.

The difficulty is that in this record and historically in Commission practice "rate stability" has been used to indicate both rate constancy and gradually changing rates. For the purpose of this decision we will use the phrase in the first sense only: rate constancy.

Rate stability (constancy) as a goal for an ECAC procedure has both advantages and disadvantages. The maximum stability we can practically conceive of would be two years. The advantage of this scheme would be predictability over the two-year period which would allow customers to accurately budget for energy bills. The major disadvantage would be the great potential for large over- or undercollections, which would result in large rate increases or decreases every two years. Wide swings in rates could have a negative effect either on the financial condition of the utilities in the event of undercollections, or on the financial condition of consumers in the event of overcollections. Thus, rate stability in designing an ECAC procedure must balance the goals of maximizing rate predictability to customers and of minimizing sharp changes in rates.

The furtherance of rate stability should also be compatible with other goals that have been mentioned by various parties: (1) ease of administration; (2) maintenance of utility financial health; and (3) provision of timely and accurate price signals to customers.

Another alternative is to forego rate stability in favor of gradually changing rates. This would also have advantages and disadvantages. Under current procedures and levels of staff and Commission review, the staff and Commission would obviously not be able to keep up with daily, weekly, or monthly adjustments.[1/] Thus in terms of administrative

1/ However, the procedures could no doubt be devised that would allow the utility to make daily, weekly, or monthly adjustments of energy rates, subject to staff and Commission review at least as frequently as currently required, i.e. three times annually.

ease such frequent changes would be unworkable, assuming present levels of staff monitoring. Since rates would change frequently, the goal of predictability would be sacrificed in favor of other goals such as avoidance of large swings in rates, avoidance of large over- and undercollections, matching of revenues and costs, and timely and accurate price signals.

Thus, in addressing the staff's proposal to reduce the number of adjustments per year from three to two (annual reasonableness review plus a trigger adjustment), we will keep in mind all of these goals, realizing that reducing the number of rate adjustments each year is likely to increase the size of the remaining adjustments.

Ease of Administration

In OII 82-09-02 we emphasized both the goals of ease of administration and rate stability (constancy) as reasons for our investigation of the schedule for energy offset revisions. We stated that frequent rate revisions have strained the ability of our staff to assign sufficient personnel to each offset application. We stated that some offset cases are decided months after the revision dates because of insufficient staff to conduct a timely review of the applications. We further stated that the purpose of the OII was to consider reducing the number of offset filings per year and to consolidate gas and electric cases so that the staff would be better able to perform its review function without the present constraints of time pressure and insufficient personnel.

The staff's own statements at the hearing support the proposition that ease of administration of the ECAC procedure would be improved by reducing the number of proceedings from three to two per year. The staff states:

— "Fewer proceedings should assist the staff to improve their efficiency in processing the AER/ECAC applications, and would allow more time to investigate the reasonableness of the companies' operations." (Tr. 8.)

The staff also states:

> "And it is a primary consideration of the staff to reduce the number of proceedings, because the staff...is relatively certain that it could provide better and more efficient analysis of complicated issues with fewer proceedings per year.
>
> "There are obvious trade-offs in the fact that the balancing account [balances] may be larger because we go two months longer without rate relief, but that is a trade-off the staff is proposing in order to have more complete, more efficient, and more importantly, timely rate relief." (Tr. 56.)

It is undisputed that the ECAC procedure has been plagued by delay; and no party has contended that the staff would not be better able to administer the ECAC procedure if that procedure called for two rather than three adjustments per year per utility.

PG&E's concern that huge over- or undercollections might result from having only two adjustments annually appears exaggerated and is probably based upon a misunderstanding of the trigger mechanism proposed by staff. As described below, the trigger mechanism will operate at relatively low balancing account balances and large balances should not accumulate. As a last resort a utility may always file an application for emergency relief, invoking Public Utilities Code 454.5, in the unlikely event that weather, fuel prices, and hydro, nuclear, and purchased power availability combine to increase or decrease greatly the balancing account.

We conclude that the staff's proposal, while it places more emphasis on the goals of administrative ease, rate stability, and rate predictability, has nevertheless struck a reasonable balance with the other goals expressed by the parties. We do not believe that over- or undercollections will be very much greater by extending the period between each adjustment by two months. Nor is it likely that the financial health of the utilities will be seriously affected by this extension. We will adopt the staff's proposal.

Trigger Mechanism

The staff's proposal for a trigger mechanism is as follows:

> "A mechanism to trigger filing of the semiannual ECAC review was included in the proposed resolution. This mechanism would trigger an ECAC filing six months after the annual review when the annual revenue effect of a change in rates to incorporate revised energy cost estimates and to amortize the balancing account in six months exceeds 5% of total annual revenue."

The level of revenues that would activate the trigger mechanism is calculated as follows:

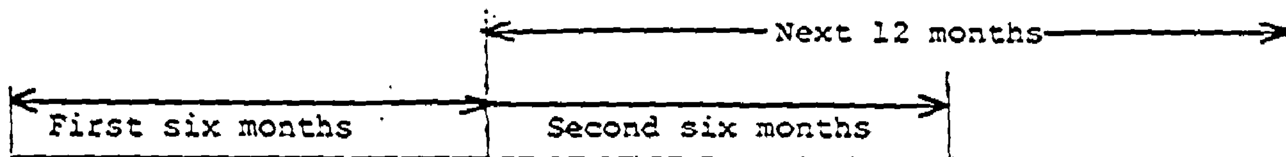
"Sample Calculation - Trigger Mechanism

Annual Revenue:	Base	=	$2 Billion	
	ECAC	=	2 Billion	(estimated)
	Total	=	$4 Billion	

Trigger Mechanism at 5% = $200 Million

Assume: 1) Fuel costs underestimated by $100 million/year; thus the balance in the balancing account is estimated to be undercollected by $50 million at the end of the first six months.

2) Fuel costs are estimated to remain unchanged for the next 12-month period, requiring a rate increase to offset further undercollection.



($50 million)

To amortize undercollection balance in second six months	=	$100 million
To offset fuel cost increase in next 12 months	=	$100 million
Trigger Mechanism at 5% = Total		$200 million

If fuel costs are projected to decrease in the next 12 months, then the trigger mechanism would not be activated."

The staff responded to PG&E's and Edison's (SCE) early critiques of the trigger mechanism as follows:

> "PG&E and SCE commented that the amount corresponding to ± 5% of their total annual electric revenues would amount to approximately $200 million. SCE is concerned, that if the semi-annual filing is not triggered, then the amount in the balancing account could increase to $300-$400 million before any relief would be given. Fuels and Operations Branch staff is of the opinion that this situation is not possible. The combination of a six-month amortization period for the balancing account with a change in the offset rate to correct for the over/under-collection would trigger a filing with a balance of about $50 million. The only exception to this would be when the utility was switching from over-collecting to under-collecting or vice-versa and in this case, the balance would be decreasing already."

We will adopt the 5% trigger mechanism as proposed by staff. For those who are concerned that the 5% trigger might be inadequate to cope with cost changes that occur, we refer them to our discussion of emergency applications above.

Issues Pertaining to the Annual Reasonableness Review Schedule

TURN proposes that the utility mail to interested parties who normally participate in energy cost offset proceedings copies of the uniform monthly fuels and operations report. There is no opposition to this proposal. We will require PG&E and Edison to mail to TURN and other interested parties who so request a copy of that report at the same time it is sent to the staff.

TURN stated that utilities are not responsive to data requests prior to filing of applications. TURN requested that it be informed of and allowed to attend informal conferences to discuss draft data requests, from Day -6 to -45, in order to get an early start on its evaluation. We do not consider it feasible to involve interested parties directly in our staff's investigations. However, we also believe that interested parties should not have to wait until after the application is filed to make reasonable data requests. Therefore, interested parties should be allowed to submit data requests after the second period ends. The utilities should respond within a reasonable time.

TURN believes that the 10-day period for utility responses to staff data requests should be applicable to utility responses to data requests by other parties. The staff responds that informal data requests are due under the staff's proposed plan by Day -45. Parties should contact the utility prior to this time and request the information they desire about the record period. After the application is filed, the parties should take advantage of the prehearing conference (Day 11) to request any data that have not been sought before. The ALJ may then set the date when responses will be due.

Since the Commission is the body duly constituted by state law to regulate public utilities, utilities ought to give first priority to responses to the data requests of the staff. Accordingly, we will not establish a rigid schedule for data

responses by the utilities to other parties. We prefer that this area continue under the supervision of the ALJ who by ruling, if necessary, may assist the parties to discover information known to the utilities.

One other point raised by TURN will clarify some concerns of SDG&E and others. The annual reasonableness reviews for the combined gas and electric departments of SDG&E and PG&E will be combined reasonableness reviews, but will not involve gas offset proceedings. These will continue on schedules set in other proceedings.

Originally, it was hoped that this decision could be issued before the end of 1982. However, the press of other business and the tight schedule of this proceeding have made a 1982 decision impossible. Our staff, therefore, suggests that instead of beginning its proposed schedule with Edison's Feburary 5 filing, the new schedule should begin with PG&E's April 7 filing. We concur.

The staff opposes the suggestion of several parties that the annual reasonableness review be separated from the proceeding that sets ECAC and AER rates for the year. The staff reasons that such a result would place the staff in exactly the same position it now has trouble maintaining: three proceedings per year. The staff seeks to relieve itself of the pressure of triannual proceedings in order to devote more time to the annual reasonableness review. It has proposed a processing plan that includes additional time for preparation, hearings, and briefs in the belief that slippage and delay of the decision beyond the revision date may be avoided. We will not adopt the proposal to bifurcate the annual reasonableness review proceeding. Instead we will try the staff's processing plan together with the staff's recommendation that, if delay beyond the revision date is imminent, staff or parties may request and

we will seriously consider, interim relief. We believe that the staff's plan plus interim rate relief reasonably addresses the concerns about potential delay that prompted many of the parties to suggest a bifurcated proceeding.

The staff has adequately addressed SDG&E's concerns about the timing of staff's audits under the staff's processing plan. The audit that takes place between Days -21 and -7 is the reasonableness review audit of the record period that ends on Day -78. Assuming the staff's audit commenced on Day -21, the utility would still have 57 days to close its books on the record period. This is virtually the two months that SDG&E believed would be ideal and more than the one month it thought was the absolute minimum time it needed. A second audit is mentioned at Day 1.[2/] This is the staff engineer's field investigation. It looks principally at forecast matters and ends on Day 10. We believe these audits are reasonably timed for the convenience of the utilities.

As to SoCal's comments, the staff believes that this proceeding should address scheduling changes only, and that it is not proper in this proceeding to make substantive changes in the type of rate relief that should be given in the offset proceedings. We are not convinced that significant over- or undercollections will occur as a result of the staff's proposal to move SoCal's filing dates ahead by one month. If upon reviewing its data before filing offset applications in the near future

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2/ Consistent with our decision on the Rate Case Plan, D.82-12-072 (December 15, 1982) in A.82-11-36, we will change Day 1 to Day 0 and thus extend the schedule by one day.

SoCal still maintains that the Commission should recognize some estimates or anticipated FERC rate changes, SoCal should make such a showing in its application. However, the record in this proceeding is inadequate to address SoCal's proposals more fully.

Lastly, with regard to SPPC's concerns about the currency of its hydro data at the time it files its annual reasonableness application, we do not find that this issue was adequately addressed in the record to warrant a change from the staff proposal. We would expect SPPC to amend its application to include the most current data available prior to the revision date.

Findings of Fact

1. The current schedule of three ECAC proceedings each year for each electric corporation has overtaxed staff's resources and has caused decisions to be signed beyond the revision dates. Delays in decisions may cause large over- or undercollections to accrue, to the detriment of both the utility and its customers.

2. The staff's proposal to reduce the number of proceedings from three to two, to consolidate gas and electric reasonableness reviews, to make the midyear adjustment subject to a trigger mechanism, and to adopt an annual ECAC review schedule will be likely to reduce delay by concentrating scarce staff's resources on the annual reasonableness review proceeding.

3. The staff's proposal to revise the scheduling of offset proceedings furthers the goal of rate stability, provides timely and accurate price signals to customers, and minimizes the possibility of abrupt changes in rates.

Conclusions of Law

1. The staff's proposed annual ECAC review schedule should be adopted, except that Day 1 should be changed to Day 0. This schedule should apply to the annual reasonableness review proceedings with revision dates set forth below.

2. A semiannual filing should be made 60 days before the revision dates set forth below, if it is determined that the annual revenue effect of a change in rates to offset revised energy cost estimates and to amortize the balancing account in six months exceeds ± 5% of total annual revenue.

3. The gas and electric revision dates should be:

Utility	Annual	Semiannual
Edison	June 1	December 1
PG&E	August 1	February 1
SPPC	January 1	July 1
SDG&E	November 1	May 1
SoCal	November 1	May 1

4. The gas and electric reasonableness reviews should be combined for PG&E's gas and electric departments and for SDG&E's gas and electric departments.

5. ECAC rates included in the annual review application should be based upon a 12-month future test period beginning on the revision date. Energy costs included in rates should be estimates of actual costs to be incurred during the test period.

6. The revised schedule of annual and semiannual filing and revision dates should become effective with PG&E's April 7, 1983 filing date.

7. PG&E and Edison should mail copies of their uniform monthly fuels and operations reports to TURN as they are available.

8. Data requests by parties other than staff should be handled informally before the application is filed and at the prehearing conference with the assistance of the ALJ.

9. Gas pricing should continue to be tied to the semi-annual CAM filings.

10. The annual reasonableness review should not be separated from the setting of ECAC and AER rates.

11. When the Executive Director and the appropriate Division Director suggest, or any party petitions for interim relief, the Commission should consider granting interim relief when it appears likely that it will not be able to decide the entire annual reasonableness review proceeding by the revision date.

12. The staff's audits are reasonably timed.

13. Substantive questions regarding the costs to be offset in SoCal's gas cost offset proceedings should be deferred to those proceedings.

14. The record periods for the annual reasonableness reviews, as calculated under the staff's schedule, end in mid-month. This timing will prove inconvenient for the utilities, which close their books at the end of the month. Therefore, the record period should end on the last day of the month in which the calculated record period ends.

15. This order should be effective today because of the imminence of PG&E's April 7, 1983 filing date.

O R D E R

IT IS ORDERED that:

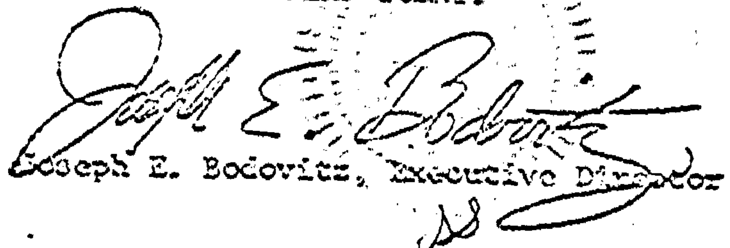
1. The staff's proposed revision dates, as set forth in Appendix A and Conclusion of Law 3, and annual Energy Cost Adjustment Clause review schedule (Appendix B) are adopted and the affected gas and electric corporations shall comply with them commencing with Pacific Gas and Electric Company's (PG&E) April 7, 1983 application.

2. Utilities subject to this order shall mail, upon request, copies of their uniform monthly fuels and operations reports to interested parties as they are available.

This order is effective today.

Dated February 16, 1983, at San Francisco, California.

LEONARD M. GRIMES, JR.
President
VICTOR CALVO
PRISCILLA C. GREW
DONALD VIAL
Commissioners



Existing and Proposed

UTILITY	D	J	F	M	A	M	J	J	A	S	O	N	D	J
PG&E				AER	7		AER AER							
SDG&E								8		AER AER AER				
SCE			5	AER	AER		AER							
SPPC										7		AER	AER AER	
SCO										SEASONAL RANGES				

EXISTING (D92496) ————————

RESOLUTION PROPOSED - - - - - - - - -

STAFF PROPOSAL xxxxxxxxxxxxxxxx

(END OF APPENDIX A)

ANNUAL ECAC REVIEW SCHEDULE

Day -78

Record period ends.

Day -66 to -45

Informal conferences to discuss draft data requests may be held with applicant, staff and any interested parties.

Day -45

Informal data requests to utility due.

Day -21 to -7

Initial staff audit conducted. Utility shall make available to staff any and all records, accounts, receipts, contracts, and other information applicable to the ECAC/AER review as requested.

Day 0

1. The application required by the Commission's Rules of Procedures shall be filed and served. Three additional copies of the application with supporting work papers shall be sent directly to the assigned project manager.
2. Two copies of all exhibits, prepared testimony, and other evidence prepared by the applicant shall be submitted to the presiding ALJ and copies served on all parties to the utility's last formal ECAC/AER proceeding. A copy shall also be filed with the Commission's Reporting Branch.
3. Staff engineer's field investigation begins. Utility shall make available to staff all records pertaining to power plant operations and maintenance, purchased power transactions, power pooling and other information applicable to the ECAC/AER review as requested.

ATTACHMENT A
Sheet 2 of 2
(revised)

* Indicates Change

Day 5

Formal data requests to utility due.

Day 10

Staff audit completed.

* Day 11

Prehearing conference

Day 15

Formal data responses from utility due.

Day 20

Preliminary report circulated.

* Day 30

Staff report mailed to all parties.
Updated data restricted to changes in fuel mix, fuel prices and the balance in the balancing account provided by the utility to all participants.

* Days 40-62

Public hearings held. No bulk or major updating amendments or recorded data to amend the final exhibits, prepared testimony, or other evidence shall be allowed.

* Day 76

Briefs due.

* Day 83

Reply briefs due. (optional)

* Day 97

Decision draft placed on Commission's agenda.

* Day 111

Decision signed by Commission.

* Day 116

Decision rates effective.

(END OF APPENDIX B)

APPENDIX C

PG&E's Assumptions Underlying Graph 3*

1) The zero baseline represents PG&E's forecast of average year hydroelectric generation from its own system, area hydro, and Northwest nonfirm power purchases. The average year forecast for PG&E and area hydro is based on 50-60 years of hydrological data and assumes existing hydroelectric facilities. The Northwest nonfirm forecast is based on a five-year rolling average.

2) The areas blocked in for each year on the chart represent the difference in the total cost of electric generation between what the cost would have been assuming the average year hydro forecast baseline and a calculated cost of generation reflecting the recorded hydroelectric generation. That cost differential is expressed in dollars and assumes:

   (a) Hydroelectric generation is displaced by (or displaces) fuel oil from PG&E's oil inventory.

   (c) The price of the average value of oil in inventory was based on its estimated price for August 1982.

3) The calculation for 1982 reflects nine months recorded data and three months forecasted.

*Source: PG&E's letter of December 29, 1982.

(END OF APPENDIX C)

As required by OII 82-09-02, oral argument was scheduled after the receipt of comments and was set for December 10, 1982. Before that date, on December 8, 1982, PG&E filed a second set of comments to emphasize that ECAC procedures must be tailored carefully to address the tremendous cost fluctuations that PG&E's heavily hydro-dependent system experiences simply because of weather differences from year to year.

Oral argument was held December 10, 1982, before ALJ Baer. Staff, Edison, PG&E, SPPC, SDG&E, SoCal, and TURN presented opening and closing arguments and the matter was submitted.

Background

ECAC is the successor procedure to Fuel Cost Adjustment (FCA) tariff provisions adopted for each of the major electric corporations beginning in 1972. On March 18, 1975 we instituted an investigation in Case 9886 into the operation of the FCA provisions. This investigation culminated in Decision (D.) 85731, which substituted ECAC for the FCA program. In D. 85731 we discussed the policy consideration that supported the original FCA procedure, as follows:

> ". . . The FCA was originally adopted because in an inflationary period, with rapid changes in the cost of fuel, an expedited method is required to permit a utility to recover these costs so its ability to function is not impaired; because such an expedited proceeding will lessen the frequency of general rate cases; and because it enhances a utility's position in the financial community."

As a result of that investigation we found the FCA to be inadequate because the average year forecast type of fuel clause does not accurately match fuel clause revenue with associated increased fuel costs, particularly in the comparatively short term. We therefore concluded that the FCA should be abandoned because of this inherent defect and because it generates controversy and

with the carrying cost for an authorized level of oil inventory, underlift charges, facility charges, and gains and losses from the sale of oil. We also established for PG&E, SDG&E, Edison, and SPPC a schedule which would require three proceedings each year at which time revisions could be made to rates to accommodate changes in energy expenses. One of these proceedings would be the annual review for determining the reasonableness of utility operations. We staggered these reviews in order to distribute the workload for the staff, as follows:

PG&E: August 1
SDG&E: November 1
Edison: May 1
SPPC: February 1

Since the establishment of the annual reasonableness review, each utility has experienced at least one such proceeding. In a reasonableness proceeding the AER was determined for a prospective 12-month period. Five such proceedings for the four major utilities have been held and five ECAC/AER decisions have been issued, but only one of the five decisions was issued in time to take effect on or before the scheduled revision date. The other four decisions lagged from two to five months beyond the revision date.

The staff attributes much of the delay in the issuance of ECAC/AER decisions to late receipt and review of additional utility data required by the staff over and above that included in the application, which is filed 60 days prior to the revision date. Although specific time schedules are set by mutual agreement of staff and the utility, there are always last minute circumstances that delay the decision. In establishing the schedule of three revision dates each year, of which one is also the annual reasonableness review, it was not anticipated that

The staff's annual ECAC review schedule as revised by the staff after considering the comments of the utilities and other parties is attached as Appendix B. The schedule begins on Day -78, when the record period is closed, and ends at Day 116, when the new rates should be effective. After considering the comments of the utilities, the staff revised its schedule in several respects. It added Day 11 which will be set aside for a prehearing conference. Parties should be prepared to make their data requests at this time and the ALJ should schedule the time, date, and place of hearings, identify parties and witnesses, and define the issues.

The staff has also added at Day 30 an opportunity for the utilities to make a limited update of their data. The data to be updated will be restricted to fuel mix and fuel price changes and the current account balance. The staff believes that only these items are relevant to establishing the AER and ECAC rates.

The staff has also added an additional week of hearing time by extending the Days 40-55 to Day 62. This extension is at the option of the ALJ. If the additional time is not required, then the ALJ may order briefs according to the original schedule. Another week has been added for reply briefs at the option of the ALJ.

In addition to the above changes the staff proposes that the Executive Director and the appropriate Division Director may recommend to the assigned Commissioner whether or not to grant interim rate relief if the proceeding is not concluded in time to issue a decision on the entire case by the revision date.

As to gas operations, the staff recommends that only the reasonableness of PG&E's and SDG&E's gas operations will be addressed during the annual reasonableness review. Gas pricing

The graph is intended to show that in any given year, depending on hydro-availability, energy costs can swing more than one billion dollars in each direction. The bar for 1977 shows that energy costs were $1.05 billion more than would have been expected in a normal year due to drought conditions during 1977. The bar for 1982 shows that energy costs were $1.29 billion less than they would have been in a normal year. It follows from the graph that if a drought year and a high hydro year occurred back to back the swing in energy cost could approach $2 billion. PG&E believes that for a system that experiences these extreme cost variations, independent of increases in fossil fuel prices, the Commission must design an ECAC mechanism with sufficient flexibility to resolve those problems. PG&E believes that the staff's proposal does not address the problems on PG&E's system. While it continues to recommen. further hearings or workshops be scheduled to explore thoroughly the alternatives to the staff's proposal, PG&E does recommend as an alternative, if the Commission is determined to adopt a new ECAC structure at this time, that the staff's proposal be modified in three ways. First, PG&E notes that the staff's proposal calls for an annual adjustment of the ECAC revenue requirement and a single rate change. To avoid astronomical rate changes that could occur

Position of TURN

TURN agrees with the utilities that recommend that the annual reasonableness proceeding which reviews recorded data be separated from the ECAC/AER proceeding which relies on forecasted data. TURN believes that if the Commission wants timely rate revisions the best way of achieving that is to provide for a separate annual reasonableness review. TURN also suggests that the staff's proposed schedule be adopted by the Commission as the schedule for the reasonableness review but that that schedule should start on the revision date for the ECAC and AER rates. In that way the annual reasonableness review would follow the ECAC/AER proceeding and we would be looking backward and having the restrospective review of the same year for which the ECAC/AER forecast was adopted the previous year. Removing the reasonableness issues from the ECAC/AER forecast proceeding will allow a more concise schedule for the forecast cases. TURN suggests that these cases could be cut back to a 90-day schedule and that the shorter schedule would allow better data upon which to base the rates, which, at least in the case of the AER rate, are going to be base rates, not subject to later revision.

TURN supports the staff's proposal to go to two ECACs per year with one of those proceedings subject to a 5% trigger. TURN recognizes that there is always a choice between larger rate changes or more frequent rate changes. TURN believes with the staff that rates should be changed less frequently and that if large changes are necessitated by the less frequent schedule, such changes can be explained simply on the basis of weather and hydro availability.

We shift now to TURN's particular observations regarding the staff's proposed schedule. TURN notes that the staff's schedule allows staff involvement in a particular annual reasonableness review

Rate stability (constancy) as a goal for an ECAC procedure has both advantages and disadvantages. The maximum stability we can practically conceive of would be two years. The advantage of this scheme would be predictability over the two-year period which would allow customers to accurately budget for energy bills. The major disadvantage would be the great potential for large over- or undercollections, which would result in large rate increases or decreases every two years. Wide swings in rates could have a negative effect either on the financial condition of the utilities in the event of undercollections, or on the financial condition of consumers in the event of overcollections. Thus, rate stability in designing an ECAC procedure must balance the goals of maximizing rate predictability to customers and of minimizing sharp changes in rates.

The furtherance of rate stability should also be compatible with other goals that have been mentioned by various parties: (1) ease of administration; (2) maintainence of utility financial health; and (3) provision of timely and accurate price signals to customers.

Another alternative is to forego rate stability in favor of gradually changing rates. This would also have advantages and disadvantages. Under current procedures and levels of staff and Commission review, the staff and Commission would obviously not be able to keep up with daily, weekly, or monthly adjustments.1/ Thus in terms of administrative

1/ However, the procedures could no doubt be devised that would allow the utility to make daily, weekly, or monthly adjustments of energy rates, subject to staff and Commission review at least as frequently as currently required, i.e. three times annually.

The staff responded to PG&E's and Edison's (SCE) early critiques of the trigger mechanism as follows:

> "PG&E and SCE commented that the amount corresponding to ± 5% of their total annual electric revenues would amount to approximately $200 million. SCE is concerned, that if the semi-annual filing is not triggered, then the amount in the balancing account could increase to $300-$400 million before any relief would be given. Fuels and Operations Branch staff is of the opinion that this situation is not possible. The combination of a six-month amortization period for the balancing account with a change in the offset rate to correct for the over/under-collection would trigger a filing with a balance of about $50 million. The only exception to this would be when the utility was switching from over-collecting to under-collecting or vice-versa and in this case, the balance would be decreasing already."

We will adopt the 5% trigger mechanism proposed by staff. KR ~~Since none of the parties has taken serious exception to the staff's proposed trigger mechanism, we will adopt it.~~ For those who are concerned that the 5% trigger might be inadequate to cope with cost changes that occur, we refer them to our discussion of emergency applications above.

11. When the Executive Director and the appropriate Division Director suggest, or any party petitions for, interim relief, the Commission should consider granting interim relief when it appears likely that it will not be able to decide the entire annual reasonableness review proceeding by the revision date.

12. The staff's audits are reasonably timed.

13. The question of appropriate costs to be offset in SoCal's gas cost offset proceedings should be deferred to those proceedings.

14. The record periods for the annual reasonableness reviews, as calculated under the staff's schedule, end in mid-month. This timing will prove inconvenient for the utilities, which close their books at the end of the month. Therefore, the record period should end on the last day of the month in which the calculated record period ends.

15. This order should be effective today because of the imminence of PG&E's April 7, 1983 filing date.

O R D E R

IT IS ORDERED that:

1. The staff's proposed revision dates, as set forth in Appendix A and Conclusion of Law 3, and annual Energy Cost Adjustment Clause review schedule (Appendix B) are adopted and the affected gas and electric corporations shall comply with them commencing with Pacific Gas and Electric Company's (PG&E) April 7, 1983 application.

2. PG&E and Southern California Edison Company shall mail copies of their uniform monthly fuels and operations reports to Toward Utility Rate Normalization as they are available.

This order is effective today.

Dated FEB 16 1983, at San Francisco, California.

LEONARD M. GRIMES, JR.
President
VICTOR CALVO
PRISCILLA C. GREW
DONALD VIAL
Commissioners