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ORIGINAL

Decision No. 86826

BEFORE THE PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

Application of PACIFIC GAS AND ELECTRIC COMPANY for Authority to Increase its Electric Rates and Charges in Accordance with the Energy Cost Adjustment Clause Included in its Electric Tariff.	Application No. 56810 (Filed October 14, 1976)

Malcolm H. Furbush, Robert Ohlbach, and Kermit R. Kubitz, Attorneys at Law, for Pacific Gas and Electric Company, applicant.
Sylvia M. Siegel, for Toward Utility Rate Normalization (TURN) and herself, protestants.
Norman L. Codd, for Southern California Edison Company, interested party.
Peter Arth, Jr., Attorney at Law, and Donald L. Houck, for the Commission staff.

OPINION

Statement of Facts

As a consequence of growing Commission concerns after three years' experience with electric utility fuel cost adjustment (fca) tariff provisions,1/ the Commission on its own motion in March 1975

1/ The fca tariff provisions allowed electric utilities to arithmetically add an adjustment (the billing factor), adjusted quarterly, to their rates in order to provide for increases and decreases in the cost of fossil fuel. These billing factors were computed on a future average-year forecast, and were premised upon the objective that what would be generated would be a dollar-for-dollar reimbursement for the increased cost of fossil fuel to be expected in the forecast period. After three years operations, however, it developed that some utilities through these procedures had been able to acquire revenues which significantly exceeded fossil fuel costs actually incurred.

opened an investigation to review the fca procedure to determine what changes, if any, should be made.[2] After extensive hearing held at various locations in the state, the Commission, insofar as is relevant here, concluded that it would be in the public interest to revise the procedure and include fuel costs for nuclear and geothermal energy, as well as the cost of purchased power, but to exclude utility-owned hydroelectric power, thus including all external energy source costs in a new fuel clause. The Commission further determined that its new offset procedure, to be known as the Energy Cost Adjustment Clause (ECAC), would be based upon actual recorded energy costs rather than the average-year forecast basis previously used.

Accordingly, by Decision No. 85731 dated April 26, 1976 in Case No. 9886, each major electric utility under Commission jurisdiction was directed to file a sample ECAC with the Commission. Pacific Gas and Electric Company (PG&E) complied, and by Resolution No. E-1559 dated May 4, 1976, the Commission authorized the PG&E ECAC for inclusion in PG&E's Electric tariff to be effective that date. In general terms, the volumes of fuel and energy actually purchased, consumed, and sold during a twelve-month calendar period[3]

2/ OII, Case No. 9886 dated March 18, 1975.

3/ The 12-month period is that ending at the end of the month prior to the month in which the filing date occurs. The volumes of gas and of each type of oil and coal fuel, if any, used for electric energy, and the volume of geothermal and nuclear production in the record period is multiplied by the current price of each and added to the total recorded cost of purchased power in the record period to compute the current total amount to be used in establishing the offset rate.

are used in computation of the energy cost adjustment (ECA) rate. By Decision No. 85968 dated June 15, 1976 in Application No. 56160, PG&E obtained authority from the Commission to make its first energy cost adjustment under the new ECAC procedure.

By this application PG&E requests authority to increase its electric rates and charges effective January 1, 1977 under the ECAC included in its electric tariff. This application constitutes the second fuel energy cost adjustment applicable to PG&E under the ECAC procedure. It is PG&E's assertion in this application that the ECAC provisions of its tariff would justify a revenue increase for the six-month period January 1, 1977 through June 30, 1977 of $188,406,000, a 22.9 percent increase, which spread to jurisdictional sales excluding lifeline usage would result in a 0.856 cent per kilowatt-hour increase, and would change the adjustment rate under the ECAC procedure to $0.01672 per kilowatt-hour in all rate schedules and applicable contracts excluding lifeline.[4]

However, because of certain unique aspects in the present overall situation, and in the interest of establishing a more stable ECAC rate level, PG&E in the alternate has conditionally proposed, and subject to those conditions, requests approval of a revenue increase of $144,386,000, a 17.6 percent increase, for the six-month period January 1, 1977 through June 30, 1977. This revenue increase,

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4/ After noting an amendment by the Federal Power Commission to its order granting El Paso Natural Gas Company a rate change to reflect the new nationwide price of gas, which rate PG&E had filed to track, at the hearing PG&E amended its application downward as pertains to the full revenue adjustment assertedly justifiable under the ECAC procedure to $187,746,000. This revised amount would result in a 22.8 percent increase, which spread to jurisdictional sales exclusive of lifeline would require a $0.00853 per kwh increase bringing the adjusted rate to $0.01669 per kwh in all rate schedules and applicable contracts excluding lifeline.

spread to jurisdictional sales exclusive of lifeline, would result in an 0.656 cent per kilowatt-hour increase, bringing the adjustment rate under the ECAC to $0.01472 per kilowatt-hour in all rate schedules and applicable contracts excluding lifeline. No increase was proposed for lifeline usage. The conditions attached to PG&E's alternate proposal of a lower ECAC adjustment[5/] are that (1) the PG&E proposal for a lower revenue adjustment be applicable only to the January 1, 1977 adjustment, (2) the ECAC adjustment must become effective January 1, 1977, and (3) the full adjustment amount to which PG&E would be entitled under the ECAC provisions will be recovered by including in the balancing account all amounts not recovered under PG&E's proposed lower ECAC amount.[6/]

The unique aspects behind PG&E's proposal are found in these facts. The twelve-month recorded period upon which PG&E's first ECAC rate (authorized by Decision No. 85968 dated June 15, 1976 in Application No. 56160) was based reflected above average PG&E hydroelectric generation, whereas the actual period from April 1, 1976 through September 30, 1976, that the ECAC has been in effect

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5/ If the Commission were to reject PG&E's proposal conditions, PG&E requested that the full adjustment provided for by the ECAC be authorized.

6/ In this manner the full amount would be recovered by amortization of amounts in the balancing account under the ECAC procedure. There was one further condition listed in PG&E's application (filed October 14, 1976), namely, that interest at an annual 7 percent rate be maintained on the balancing account. However, this condition was rendered moot in that the Commission on October 13, 1976 issued Decision No. 86484 which contained a supplemental order to Decision No. 85731, providing for 7 percent interest on the balancing account, debit or credit. By Advice Letter filing No. 553-E filed November 2, 1976, PG&E amended its tariff to provide for interest at the rate of 7/12 percent per month on the balancing account.

registered the driest period in PG&E's experience, resulting in only 2/3 of the hydroelectric generation included in the above referenced first ECAC rate considerations, with consequent significantly increased fossil fuel generation. In addition, there were significant increases in the costs of natural gas used for electric generation over those included in the first ECAC rate. PG&E's actual fuel costs during the April 1, 1976 through September 30, 1976 period covered by the first ECAC rate consequently were significantly higher than the actual offset revenue generated by the first ECAC rate. The difference is included in the balancing account to be amortized by the proposed January 1, 1977 ECAC adjustment. Finally, additional increases in the price of natural gas which will be incurred on or before January 1, 1977, further increase PG&E's current cost of gas, which, reflected in the January 1, 1977 ECAC adjustment, further increases that rate level.

A duly noticed public hearing was held in San Francisco on November 29 and 30, 1976 before Examiner John B. Weiss. Three letters in opposition to the application were received from consumers. There was no public attendance at the hearing beyond the appearance made by a representative of Toward Utility Rate Normalization (TURN) the first day. TURN objected to lack of individual consumer notice, contending that newspaper and public notice procedures were inadequate.[7/] The examiner adjourned proceedings

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7/ In its essence this application is an offset proceeding and therefore does not require individual customer notice, whether by prepaid postage or by the bill enclosure notice. This latter individual customer procedure is required for application proceedings for "...other than an increase reflecting and passing through to customers only increased costs to the corporation..." (See Rule 24 of Commission Rules of Practice and Procedure.)

at noon the first day to permit parties to use the balance of the day to review the staff exhibit placed into evidence. At the start of the second hearing day, TURN requested permission to withdraw from further participation in the matter, voicing strong objection in particular to the ECAC procedure.[8/] After discussion, the examiner permitted TURN to withdraw from further participation.

Subsequently on the second day, the staff testified as to conclusions it reached from its detailed investigation into the application, including statements as to its verification of energy expenses incurred by PG&E in the record period as well as the reasonableness of the fuel and energy prices stated by PG&E. With reference to the full amount of any increase justifiable under the ECAC procedure, the staff concluded that $187,085,000, a slightly lesser amount than that asserted by PG&E, would be justifiable as reflecting only the effect of increased fuel and power costs to PG&E for electricity furnished to its customers. The staff arrived at this lesser amount based upon adjustments derived from its

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8/ In relevant part the TURN representative stated:

"I filed an appearance yesterday in the belief that there would be some point in cross-examining staff and company witnesses to achieve mitigation of this monumental rate increase request. I can see now that this is nothing more than a pro forma hearing and an automatic increase will issue to the company; that the staff is constrained by time and other effects around the Commission; that there was not the kind of thorough going review that I would envision is required for a monumental increase of this kind..."

Also:

"And I think it is absolutely futile to participate in this kind of a proceeding. I think it is a rubber stamping; it is a pro forma hearing, and there is no point in wasting my time. I have an enormous amount of work to do, and I can do it better—turn my attention to other activities that are required before the Commission where there is some hope of mitigation. I see none whatsoever here. I think it is an automatic procedure, and I for one was hopeful that automatic procedures went out with the last Commission, but I guess they haven't."

investigation. These adjustments included suspension at this time of any accrual of reserves to cover reprocessing costs for nuclear fuel, and salvage credits for uranium and plutonium; correction of a minor arithmetical error in the quantity of Btu's burned in conventional steam plants; and the staff's estimate (sustained by subsequent developments) on final increases to be accepted by the Commission in certain subsequent offset proceedings which affect the current price of gas.

Following its review of PG&E's work papers and accounting records, the staff noted its satisfaction that, as ordered by Decision No. 85968 dated June 15, 1976 in Application No. 56160, PG&E had removed the $2,125,000 idle tanker charge from inventory and had debited it to fuel expense.9/

After setting forth its recommendations regarding the justifiable full ECAC adjustment, the staff also recommended to the Commission adoption of the lesser increase of $144,386,000, and an ECAC adjustment rate of 0.01472 cents per kilowatt-hour, as alternately and conditionally proposed by PG&E, for the six-month period January 1, 1977 through June 30, 1977.

Section 739 (b) of the Public Utilities Code, as relevant here, provides: "The Commission shall authorize no increase in the lifeline rate until the average system rate in cents per kilowatt-hour or cents per therm increased 25 percent or more over the January 1, 1976 level." At present rates, PG&E's average system rate is 12.52 percent higher than its January 1, 1976 average system rate. The $144,386,000 increase proposed here would put PG&E's average system rate 32.8 percent above its January 1, 1976 average system rate, thus going beyond existing lifeline guidelines. PG&E

9/ See Ordering Paragraph 6 relating to Finding 6 in that decision.

proposes spreading this entire $144,386,000 increase over jurisdictional sales, excluding lifeline usage. On the other hand, the staff, as an alternative, proposes spreading the increase in two segments: the first segment to be spread over the jurisdictional sales excluding lifeline to bring the average system rate up to 25 percent above the January 1, 1976 average system rate level; and the second segment, comprising the remainder of the increase, to be spread over the entire jurisdictional sales including lifeline usage.

In Decision No. 85968 we requested the staff to recommend the most efficient method of reviewing the reasonableness of prices paid by utilities for fuel and energy purchases at future ECAC hearings. In compliance the staff submitted its recommendation of an appropriate procedure which we are urged to adopt. It details an analytical review for application to the annual reports on reasonableness of fuel and energy purchases which by that decision we also required. In compliance with this latter requirement, PG&E on August 12, 1976 filed its report detailing activities in 1975 and 1976 concerning fossil fuel use, the company's oil procurement program, Federal Energy Administration price regulations, oil purchases and price comparisons, nuclear fuel costs, geothermal steam prices and purchased power costs. After application of its recommended analysis procedures to the August 1976 PG&E report, the staff here reported its conclusion that the prices paid by PG&E for fuel and energy in the 1975-1976 report period were reasonable under all the circumstances involved.

Discussion

In this proceeding we must determine the full amount of the ECAC Adjustment Rate which could be justified under the ECAC procedure for January 1, 1977; the amount which will be made effective that date, and how to spread that amount with regard to lifeline considerations; the amount of the Fuel Collection Balance, and the Fuel Collection Balance Adjustment Rate to be applicable January 1, 1977, and the acceptability of the staff recommended review list to be used in reviewing the reasonableness of prices paid by PG&E for fuel and energy purchases as applicable to ECAC hearings.

By the terms of the ECAC set forth in PG&E's tariff,[10] its ECA rate to be effective January 1, 1977 must be determined on the basis of historical data, data based in this instance upon the twelve-month record period which ended September 30, 1976. The ECA rate is the sum of the Offset Rate and the Balancing Rate, each adjusted for franchise and uncollectible accounts expense. In turn, the Offset Rate is the quotient of the current cost of fuel and purchased energy less sales to the Department of Water Resources divided by the record period kwh of sales, and then less the base weighted rate for fuel and purchased energy.

Both PG&E and the staff submitted exhibits showing calculation of the current cost of fuel and purchased energy. A comparison of these calculations is set forth in Table I, CURRENT COST - FUEL AND PURCHASED ENERGY, below. PG&E and the staff differ in three instances:

1. The unit price of gas of 203.64¢/million Btu used by PG&E in its calculation.
2. Inclusion of accrual reserves for reprocessing uranium.
3. A minor arithmetical error in calculation by PG&E of the quantity of Btu's burned in conventional steam plants of residual oil.

The unit price of 203.64¢/million Btu used by PG&E was contingent upon Commission approval of two filings before the Commission, one for a 3.11¢/million Btu increase and the second for a 9.44¢/million Btu increase. The 3.11¢/million Btu increase was

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10/ See Part B - Energy Cost Adjustment Clause (ECAC) in PG&E tariff, Revised Cal. P.U.C. Sheets Nos. 6336-E, 6189-E, 6337-E, and 6338-E.

requested by Advice Letter No. 826-G, an increase rejected by this Commission following adverse Federal Power Commission action on the underlying El Paso filing with the FPC which was being tracked by PG&E. In its place PG&E then filed Advice Letter No. 832-G seeking a 3.57¢/million Btu increase to be effective December 1, 1976. This in turn was subsequently amended to 2.43¢/million Btu by Advice Letter No. 832-G (Supplemental). The supplemental filing received Commission sanction in Resolution No. G-1984 dated November 30, 1976, although it is subject to potential revision in the event the Federal Power Commission should require a different rate schedule or effective date. The second contingent increment relied upon by PG&E in reaching their 203.64¢/million Btu unit price for gas - the 9.44¢/million Btu proposal - was authorized October 14, 1976 by Decision No. 86341 with an effective date of January 1, 1977.

On the other hand the staff, in preparing its computation for presentation at the hearing had the benefit of knowing that the 9.44¢/million Btu request had been approved, and in addition correctly foresaw Commission approval of the 2.43¢/million Btu reflected in the supplemental PG&E filing. Accordingly, the staff use of 202.96¢/million Btu is correct and will be adopted.[11]

At present PG&E operates a small nuclear facility at Humboldt Bay. Its nuclear fuel assemblies are so designed that a part of the core's fuel assembly is replaced each year. At Humboldt Bay roughly 1/4 of the core is replaced annually. A portion of the total cost of each group of assemblies less expected residual uranium value at the end of the fuel cycle is amortized by PG&E to

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11/ On November 12, 1976 PG&E filed Applications Nos. 56392 Supplemental and 56393 Supplemental seeking a total additional increase in the unit price of gas of 12.90¢/million Btu to become effective January 1, 1977. Those matters are set for hearing early in January 1977 and that increase is not reflected in the instant ECAC filing.

expense each month. After a fuel assembly is removed from the reactor it remains at the plant for cooling off before reprocessing can take place Consistent with the provisions of the Uniform System of Accounts, at time of the hearing PG&E was accruing a reserve for the reprocessing of the Humboldt Bay nuclear fuel, and was expensing nuclear fuel for the reactor on the basis of recovering the value of residual uranium from spent fuel, as well as accumulating credits for estimated eventual plutonium recovery (the purpose of reprocessing is to remove usable uranium and certain by-products such as plutonium from spent fuel and to prepare the remaining radioactive waste products for permanent disposal). These estimated reserves account for 0.163¢/ kwh Btu out of the total 0.343¢/ kwh Btu nuclear steam plant unit price used by PG&E in arriving at the current cost of fuel and purchased energy. However, at present unresolved issues relating to the entire reprocessing cycle make uncertain at best any estimates of the actual costs which eventually will evolve. Accordingly the staff proposed suspension at this time of any accrual for reprocessing costs. In that the impact of suspension at this time would be minimal we will adopt the staff's view. We recognize that there are indeed some costs involved at Humboldt Bay, and that once nuclear generation from Diablo Units 1 and 2 is available, the costs involved in the reprocessing cycle become significant. Therefore, for purposes of this ECAC, we will allow 0.180¢/million Btu as the unit price to be used, and will leave to future ECAC proceedings further consideration of accruals for the reprocessing cycle costs in nuclear facilities.

The final Table I difference between PG&E's and the staff's calculations involves a minor arithmetical error made by PG&E in the unit price applicable to conventional residual oil steam plants. As corrected we adopt the staff figure of 217.983¢/million Btu's.

With reference to the following comparison, TABLE I, CURRENT COST - FUEL AND PURCHASED ENERGY, we adopt the staff calculation of the current cost, $888,436,000.

TABLE I

CURRENT COST - FUEL & PURCHASED ENERGY

Record Period: 12 mos. ending 9/30/76 — Revision Date: 1/1/77

	PG&E			Staff		
	Billions of Btu or Gwh	¢/Million Btu or ¢/Kwh	Cost in Thousands	Billions of Btu or Gwh	¢/Million Btu or ¢/Kwh	Cost in Thousands
Conventional Steam Plants, Including Refinery:						
Gas	213,307	203.64	$431,857	213,134	202.96	$432,577
Oil-Residual	137,730	217.981	294,348	137,730	217.983	300,228
Oil-Distillate	761	247.244	1,882	761	247.244	1,882
Subtotal	351,798		728,087	351,625		734,687
Geothermal Steam Plants	3,758	1.135	42,653	3,758	1.135	42,653
Nuclear Steam Plants	326	0.343	1,112	326	0.180	587
Purchased Electric Energy	-	-	110,547	-	-	110,549
Pre-operative Generation Charged to Expense	-	-	(40)	-	-	(40)
Current Cost of Fuel and Purchased Energy	-	-	890,763	-	-	888,436

(Red Figure)

From this we proceed to determination of the Offset Rate, setting forth in Table II, OFFSET RATE, below, a comparison of the PG&E and staff computations. These track, except for the difference in the current cost of fuel and purchased energy carried forward from Table II. We adopt 1.344¢/kwh as the Offset Rate applicable to nonlifeline sales.

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TABLE II

OFFSET RATE (derivation)

Record Period: 12 mos. ending 9/30/76 Revision Date: 1/1/77

	PG&E			Staff		
	Million Kwh	Amount in Thousands	Cents/Kwh	Million Kwh	Amount in Thousands	Cents/Kwh
Current Cost of Fuel and Purchased Energy	55,697	$890,763		55,697	$888,436	
Less Sales to Dept. Water Resources	1,442	4,473		1,442	4,473	
Net for Fuel and Purchased Energy	54,255	886,290	1.634	54,255	883,963	1.629
Less: Base Weighted Rate for Fuel and Purchased Energy(a)			0.408			0.408
Total Sales Subject to Offset Rate	51,707	633,928	1.226	51,707	631,342	1.221
Less Lifeline Residential Sales and Net Revenue Therefrom	8,461	50,005	0.591	8,461	50,005	0.591
Offset Rate Applicable to Nonlifeline Sales	43,241	583,923	1.350	43,246	581,337	1.344

(a) See Part B - Energy Cost Adjustment Clause (ECAC) in PG&E tariff, Revised Cal.P.U.C. Sheet No. 6336-E.

PG&E reported the Electric Energy Cost Adjustment Balance as of September 30, 1976 to be $133,313,169.43. However, in its investigation the staff discovered errors in applicant's computations to the effect that the balance is overstated by $537,083. PG&E has agreed to correct for this balance overstatement in its November 1976 entries, which in turn will reflect in the next ECAC adjustment to be effective July 1, 1977.[12/] Accordingly, we have proceeded using the full $133,313,169.43 for purposes of this proceeding.

The Balancing Rate formula set forth in PG&E's tariff[13/] provides that the Balancing Rate per kwh equals the quotient of the September 30, 1976 balance in the Electric Energy Cost Adjustment Account divided by the number of kilowatt-hours of applicable jurisdictional sales in the 12-month record period ending September 30, 1976. As set forth in Table III, BALANCING RATE, below, the rate is 0.308¢/kwh.

12/ The net effect of this overstatement, were it to be corrected here, would be to result in a Balancing Rate of 0.307¢/kwh which, carried through the Adjustment Rate formula, would in turn result in an ECAC Adjustment Rate of 1.665¢/kwh for the staff's recommendation of the full justifiable rate. In view of what follows, however, we will adopt the staff approach to the correction.

13/ See Part B - Energy Cost Adjustment Clause (ECAC) in PG&E tariff, Revised Cal.P.U.C. Sheet No. 6337-E.

TABLE III

BALANCING RATE

Record Period: 12 mos. ending 9/30/76 Revision Date: 1/1/77

Energy Cost Adjustment Acct. Balance as of 9/30/76	$133,313,169.43
Record Period Applicable Jurisdictional Nonlifeline Sales	$43,246 gwh
Balancing Rate	0.308¢/kwh

Adjusting both the Offset Rate and the Balancing Rate for franchises and uncollectibles, and then adding the two adjusted rates as provided in the ECAC formula, as set out by Table IV, ADJUSTMENT RATE, we arrive at a comparison by PG&E and the staff of the full January 1, 1977 ECAC Adjustment Rate justifiable under the ECAC formula. For reasons set forth earlier, we adopt the staff computations, and determine 1.666¢/kwh as the full ECAC Adjustment Rate which can be justified for January 1, 1977.

TABLE IV

ADJUSTMENT RATE

Record Period: 12 mos. ending 9/30/76 Revision Date: 1/1/77

	PG&E		Staff	
A. Adjustment Rate for Lifeline Sales				
Offset Rate	0.591		0.591	
Offset Rate adjusted for Franchises and Uncollectibles		0.591		0.591
B. Balancing Rate	-		-	
Balancing Rate adjusted for Franchises and Uncollectibles		-		-
Full ECAC Adjustment Rate - Lifeline Sales		0.591¢/kwh		0.591¢/kwh
B. Adjustment Rate for Nonlifeline Sales				
Offset Rate	1.350		1.344	
Offset Rate adjusted for Franchises and Uncollectibles		1.361		1.355
Balancing Rate	0.308		0.308	
Balancing Rate adjusted for Franchises and Uncollectibles		0.311		0.311
Full ECAC Adjustment Rate - Nonlifeline Sales		1.672¢/kwh		1.666¢/kwh

Having determined the full rate justified we are nonetheless in full agreement for the reasons stated earlier with the joint recommendation of PG&E and the staff to adopt the lesser rate of 1.472¢/kwh as the ECAC adjustment rate for the period January 1, 1977 through June 30, 1977. This lesser rate of 1.472¢/kwh, which we adopt, will produce a 0.656¢/kwh increase which will produce additional estimated revenue in the amount of $144,386,000. The difference between the $187,085,000 found justifiable, and the $144,386,000 adopted, is $42,699,000. We will authorize PG&E to add any such difference, as is actually realized, as Associated Jurisdictional Expense to the Electric Energy Cost Adjustment Account for recovery in future balancing rates. There it will be subject to the 7 percent per annum interest provisions applicable to that account.

TABLE V

ADJUSTMENT RATE SUMMARY

Record Period: 12 mos. ending 9/30/76 Revision Date: 1/1/77

	PG&E		Staff	
	¢/kwh	Thousands	¢/kwh	Thousands
Full ECAC Adjustment Rate	1.672	$	1.666	$
Present ECAC Adjustment Rate	.816		.816	
Increase justifiable by this ECAC	.856	188,406	.850	187,085
PG&E Application, this ECAC	.656	144,386	.656	144,386
Unrecovered by this Application	.200	$ 44,020	.194	$ 42,699
Estimated amount, which if realized, will be added as Associated Jurisdictional Expense to the Electric Energy Cost Adjustment Account for recovery in future Balancing Rates:				$ 42,699

We next address the matter of the Fuel Collection Balance Adjustment Rate. PG&E and the staff propose no change in the existing rate, based upon experience in the April-September 1976 record period. We agree with their conclusions and will retain the minus 0.042¢/kwh rate designed to amortize out the earlier overcollections. Retention of this rate will result in an estimated reduction in consumer's bills, and commensurate decrease in PG&E's net revenue, of $21,748,000 on an annual basis.

TABLE VI

FUEL COLLECTION BALANCE ADJUSTMENT RATE

Record Period: 12 mos. ending 9/30/76 Revision Date: 1/1/77

	Thousands of Dollars	
Fuel Collection Balance 3/31/76	$61,929	
Plus Interest @ 7/12 Percent per Month	2,126	
Less FCBA Revenue Credit 4/1 - 9/30/76	6,061	
Net to be Amortized as of 1/1/77	$57,994	
1977 Amortization Amount 12/32 of $57,994	21,748	
Applicable Record Period Sales	51,707	gwh
Fuel Collection Balance Adjustment Rate	0.042¢/kwh	
Decreased Annual Revenue	$21,748	

The increased revenue which the adopted 1.472¢/kwh ECAC adjustment rate will generate will serve to bring the average system rate for PG&E's Electric Department to 32.8 percent above the January 1, 1976 average system rate for the utility, thereby bringing up the issue as to how it should be handled under the Miller-Warren Energy Lifeline Act. That Act required establishment of a lifeline quantity of electricity for residential consumers, and that the price of that lifeline quantity must not become greater than its price on January 1, 1976 until the average system rate for the utility becomes more than 25 percent greater than the average system rate on January 1, 1976. The staff computes PG&E's average system electricity rate on January 1, 1976 to be 0.02589¢/kwh. This increase, on top of previous increments in 1976, will serve to bring the average system rate to 0.03438¢/kwh.

In Miller-Warren, after concluding that light and heat are "basic human rights", and that basic minimum quantities must be made available to all people at low cost, and noting that existing rate structures penalized small users and encouraged wastefulness by large users, the Legislature in essence froze the rates - in this instance of electricity - for basic amounts to small residential consumers for an interim period until the average system rate increased a prescribed amount. While the Legislature has not described what occurs after the limited perimeters of Miller-Warren are reached, it is clear that it was a legislative intention to make the relative rate cost burdens more fair to all parties by narrowing down the rate spreads. The Legislature placed the burden of paying for immediate increasing costs and taxes during an interim period, and of spearheading conservation, upon the larger users. Furthermore, by directing this Commission to report back to the Legislature in January 1977 on the effect the act has had on rates and costs to users and utilities, at least inferentially, it would appear clear that the legislative concerns were not transitory, or that its remedial prescription necessarily a one-shot dosage. Rather it would appear a clear intention to reassess the problem vis-a-vis the interim prescription before proceeding further with possibly more permanent solutions.

This Commission in Case No. 9988 has opened an investigation concerning lifeline rates, and we believe that it would be both premature and a breach of faith with the thrust of Miller-Warren to attempt any interim restructuring remedies here based upon the limited participation, testimony, and evidence presented herein. While the staff is to be commended for suggesting alternatives for our consideration we note that there will be another ECAC adjustment effective July 1, 1977 at which time we will have the benefit of our other investigative proceeding in determining appropriate methods for spreading rate increases after the 25 percent differential has been reached. Therefore, we will exclude lifeline from participation in this increase. Accordingly, the ECAC increased revenue, spread to jurisdictional sales, excluding lifeline usage, results in a 0.656¢/kwh increase and the effect on classes is as follows:

Class of Service	January 1 - June 30, 1977 Revenues	Percent
Residential	$ 33,699,000	10.6
Small Light and Power	13,664,000	14.1
Medium Light and Power	42,352,000	21.9
Large Light and Power	41,852,000	27.9
Agricultural	10,031,000	22.1
Street Lighting	1,502,000	11.6
Railway	833,000	33.1
Interdepartmental	453,000	22.0
Total	$144,386,000	17.6

The ECAC factor in lifeline rates will be retained at 0.595¢/kwh (same as it is now).

Lastly, we turn our attention to the response of the staff to our request in Decision No. 85968 for a recommended "most efficient method" of reviewing the reasonableness of prices paid by utilities for fuel and energy purchases. The staff recommendation of such an appropriate procedure is to suggest an analysis of the utility's purchases over each applicable prior record year in order to determine if the actions of the utility were prudent. A list of items to be reviewed, according to the staff recommendation, is attached hereto as Appendix A. The staff used this analytical approach in its investigation leading to this ECAC proceeding and reported accordingly.

Insofar as PG&E's oil procurement program in the record period is concerned, the staff reviewed the utility's report submitted August 12, 1976 and spot checked actual prices paid with contractual prices and spot purchase prices. In its report PG&E submitted comparisons of average prices paid by PG&E and other utilities for fuel oil since January 1975, which prices the staff concluded tend to compare favorably to the prices paid by other utilities. This staff conclusion was reached after careful scrutiny of the differing cost and reporting characteristics of the various utilities. It must be considered that where a utility has a number of both foreign and domestic source suppliers, average price comparisons obviously can be misleading. Also, as we have previously recognized in Resolutions Nos. L-153 and E-1442 in 1974, the facts that governmental price regulations tend to favor East Coast utilities in oil importation, and that differing transport cost components imbedded in oil contract prices contribute to pricing differentials must be considered in making comparisons. The staff also took into consideration the changed weather situation noting that while good hydro conditions through early 1975 caused the fuel oil spot market to soften, PG&E could not take full advantage of that change because of long-term contractual commitments, but that PG&E was able to negotiate more favorable fuel oil prices for 1976 needs. Considering all the facts and circumstances the staff concluded that the price paid by PG&E for fuel oil was reasonable. We adopt the staff's conclusion as our own.

Most of the energy purchased by PG&E is under long-term contracts, the cost and operation of which have been reviewed in detail in each of the three PG&E general rate proceedings since 1970. The availability of purchased power is generally governed by the amount of precipitation each year in northern California and the Pacific Northwest. In the current record period, net purchased energy declined from 26.8 percent to 21.3 percent of the total energy mix as a consequence of less Northwest surplus power and reduced hydro energy from other sources. Furthermore, the energy available was priced higher than reflected in the present ECAC rate, thus resulting in an increase in the purchased power costs.[14] The staff noted that purchased power costs reflect capacity charges paid to the Sacramento Municipal Utilities District (SMUD) in accordance with PG&E's contract with SMUD, although no capacity was received as a consequence of frequent Rancho Seco No. 1 nuclear plant shutdowns. About $7,000,000 of that capacity expense, incurred between April 1, 1976 and September 30, 1976, is reflected in the Energy Cost Adjustment Account Balance. PG&E has filed a multi-million dollar damage claim against SMUD,[15] attempting recovery of all or part of that expense. We will expect PG&E to diligently pursue this claim and if and when the recovery matter is settled, we will expect that a consonant proper adjustment be made in the Energy Cost Adjustment Account Balance. In summary, the staff investigation satisfies us that the power purchased was in accord with PG&E's contracts, and that the energy obtained was economical and resulted in overall lower energy costs to the utility and its ratepayers.

While experience may well dictate that the review list proposed by the staff (see Appendix A) as the most efficient method of conducting a review of the reasonableness of the prices paid for fuel and energy purchases should be expanded or otherwise changed; in this instance it has served its purpose. Accordingly,

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14/ PG&E's own hydro generation also declined from 23.7 percent to 16.4 percent of the total energy mix in this unusually dry record period.

15/ Although SMUD advised PG&E that Rancho Seco was in commercial operation status it developed that the nuclear plant actually was out of service for about 11 of 12 months.

we will adopt the review list as submitted, subject to possible amendment in future ECAC proceedings as circumstances may dictate.

For the purpose of this ECAC proceeding we find that PG&E has acted reasonably in its purchases of fuel and energy. In order to make implementation of the ECAC coincide as closely as possible to the intention of the Commission in Decision No. 87531, this order should be made effective immediately.

Findings

1. In consideration of the fact that this Commission concurrently is investigating lifeline application beyond Miller-Warren perimeters so as to determine its future policy on lifeline, it would be premature at this time, absent any compelling reason to do so, to extend any part of this ECAC adjustment increase to lifeline rates.

2. Therefore, the ECAC Adjustment Rate, were the full amount which could be justified under the ECAC provisions of PG&E's tariff put into effect January 1, 1977, would be $0.00595/kwh for lifeline sales and $0.01666 for nonlifeline sales, and would produce an estimated additional revenue of $187,085,000 for PG&E.

3. In order to establish a more stable ECAC Adjustment Rate level, PG&E has proposed a lesser ECAC Adjustment Rate to become effective January 1, 1977. We find PG&E's proposal reasonable and proper.

4. Therefore, PG&E's ECA rate of service on and after the effective date of this order should remain at $0.00595/kwh for lifeline sales and become $0.01472/kwh for applicable nonlifeline sales.

5. The resultant revenue increase to PG&E is estimated to be $144,386,000.

6. PG&E should be authorized to include any actually realized difference between the estimated revenue which the full $0.01666/kwh ECAC Adjustment Rate would produce, and the estimated revenue

which the authorized \$0.01472/kwh ECAC Adjustment Rate will produce in the Electric Energy Cost Adjustment Account, subject to 7 percent per annum interest, for recovery in future balancing rates.

7. PG&E's Fuel Collection Balance, as of September 30, 1976, is \$57,994,117.99.

8. The \$57,994,117.99 balance in the Fuel Collection Balance, plus 7 percent on the unamortized balance, should be amortized over 32 months in approximately equal amounts each month. Commencing with service on or after the effective date of this order, such amortization should be at a rate of \$0.00042/kwh of jurisdictional sales to which the ECAC applies, including lifeline usage. The dollar amount thereof should be shown on each customer's bill.

9. The estimated amount of this rebate in the year beginning January 1, 1977 is \$21,748,000.

10. The list of items to be reviewed by the staff in verification of the reasonableness of prices paid by PG&E for fuel and energy prices in each record period (attached as Appendix A), as submitted by the staff, is reasonable and proper, and should be adopted for future use in ECAC hearings.

11. PG&E's purchased fuel and energy expenses, after adjustment at this time to temporarily delete nuclear fuel reprocessing accruals, are reasonable.

12. PG&E should pursue remedies, including legal action, against SMUD to recover so-called "capacity" charges paid in regard to Rancho Seco shutdown time, and if successful in recovery should make consonant adjustments in the Energy Cost Adjustment Account Balance.

13. The changes in rates and charges authorized by this decision are justified and reasonable; the present rates and charges, insofar as they differ from those set forth in this decision, are for the future unjust and unreasonable.

O R D E R

IT IS ORDERED that:

1. Pacific Gas and Electric Company has a Fuel Collection Balance as of September 30, 1976 of $57,994,117.99 and is ordered to refile paragraph 12 of the Energy Cost Adjustment Clause of its tariff to set forth such amount.

2. Pacific Gas and Electric Company shall continue to decrease each rate schedule, described in paragraph 12 of the Energy Cost Adjustment Clause (ECAC) of its tariff, by a Fuel Collection Balance Adjustment of $0.00042 per kwh.

3. Pacific Gas and Electric Company is authorized to file revised rate schedules to increase its Energy Cost Adjustment Rate to $0.01472 per kwh for all of its Electric Department's applicable nonlifeline sales and to continue an Energy Cost Adjustment Rate of $0.00595 per kwh for lifeline sales.

4. Pacific Gas and Electric Company is authorized to add the additional amount justified but not recovered under the lower ECAC adjustment adopted to the Electric Energy Cost Adjustment Account at 7 percent per annum interest for recovery in future balancing rates.

5. Appendix A to this order is adopted as the outline of the analysis to be followed by the staff in ECAC applications to determine the reasonableness and prudence of Pacific Gas and Electric Company's purchases of fuel and energy in the applicable record period.

6. Pacific Gas and Electric Company is authorized to file with this Commission on or after the effective date of this order, in conformity with the provisions of General Order No. 96-A, revised tariff schedules as specified above. The effective date of the revised schedules shall be the date of filing.

The effective date of this order is the date hereof.

Dated at San Francisco, California, this 5th day of JANUARY, 1977.

Robert Batinovich
President
William Symons Jr.
Vernon L. Sturgeon
L. Ross

Commissioners

APPENDIX A

Outline of the analysis to be followed by the Commission staff in ECAC applications to determine the reasonableness and prudence of Pacific Gas and Electric Company purchases of fuel and energy in the applicable record period.

1. Review fuel oil requirements on an average year concept. Appropriate annual, as well as monthly, supplies should be established.
2. Review the bids for needed supply of specified quality.
3. Establish the market price, contract price, and final delivery price from each available resource.
4. Compare the bid prices, quantities, supplier's credit, guarantee of supply, terms of contract, and other items that are included in the contractual agreement.
5. Monitor the market price, spot prices, and prices paid by other utilities in California, and the utility's efforts to take advantage of favorable situations.
6. If conditions are changed by government actions, Act of God, or for any other reason, the efforts taken by the utility to see that its fuel supply requirements are met at the most favorable prices should be analyzed.
7. In the event that the above-mentioned events are revised or changed, the staff should be informed immediately in detail without waiting for the explanation in the annual reasonableness report.
8. In the event that the staff finds the utility's actions unjustifiable, an appropriate rate adjustment will be made.