

ORIGINALDecision No. 87071

BEFORE THE PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

Application of PACIFIC POWER & LIGHT
COMPANY under Section 454 of the
Public Utilities Code of the State
of California for authority to
increase rates for electric service.

Application No. 56395
(April 9, 1976)

Gerald K. Drummond and Marcus Wood, Attorneys at
Law, for Pacific Power & Light Company, applicant.
Elizabeth Freeman and Thomas M. Ducey, for themselves,
protestants.

William H. Edwards and Allen E. Crown, Attorneys
at Law, for California Farm Bureau Federation,
interested party.

Mary Carlos, Attorney at Law, and A. V. Garde, for
the Commission staff.

O P I N I O N

Pacific Power & Light Company (Pacific) seeks an increase in rates for electric service designed to yield increased revenues of approximately \$2,974,000 based on data for a historical test year ended September 30, 1975. The request represents an average rate increase of approximately 25 percent.

Pacific is a Maine corporation which provides electric service as a regulated public utility in California, Oregon, Washington, Wyoming, Montana, and Idaho. Pacific's California service area includes the cities of Crescent City and Yreka, as well as a number of smaller communities in the extreme northern portion of the state. During the test year ended September 30, 1975, Pacific had an average of 29,792 customers in California, and had electric operating revenues assigned and allocated to California of \$11,624,000. During this period, 3.9148 percent of Pacific's total kilowatt-hour sales were assigned and allocated to California customers.

Duly noticed public hearings were held before Examiner Mallory in Crescent City on October 5, 1976, in Yreka on October 6 and 7, 1976, and in San Francisco on October 22, 1976. The application was submitted on November 30, 1976 upon receipt of concurrent briefs filed by Pacific, the California Farm Bureau Federation (Farm Bureau), and the Commission staff.

Evidence was adduced on behalf of applicant, the staff, Farm Bureau, and by customers of the utility.

Pacific and the Commission staff presented testimony and exhibits concerning revenues, expenses, rate base, and rate of return on rate base for a test year ended September 30, 1975 under present and proposed rates. Witnesses for Pacific and for the staff also presented recommendations concerning a reasonable rate of return on rate base. Applicant and the staff also offered in evidence proposed rate levels designed to produce the additional revenue sought herein.

Public Witnesses

Witnesses appearing for Farm Bureau are ranchers located in Scott Valley and other areas in and around Yreka who produce forage crops requiring extensive irrigation. Their testimony was directed to their need for lower agricultural pumping charges than proposed by Pacific or the staff. Three witnesses living in Crescent City appeared in opposition to proposed increases in electric rates for household usage, including pumping of water. A building contractor, in a statement, questioned the economic feasibility of continuing to build houses heated by electricity when, in the future, other forms of energy for space heating will become more efficient and less costly.

Rate of Return

Applicant's witness on cost of capital and rate of return testified that an overall rate of return of 9.98 percent would be reasonable for Pacific's operations, because that rate of return

would produce a return on common equity of 15 percent required by Pacific.

Pacific's witness testified that to enable the company to obtain that rate of return, Pacific would need annual operating revenues of \$17,363,000, or \$1,863,000 more than requested herein.

The witness for the Commission staff recommended a rate of return in the range of 9.0 to 9.2 percent, with a corresponding range for return on common equity of 12.26 to 12.84 percent. The staff results-of-operation witness testified that staff estimates of test-year revenues, expenses, and rate base under proposed rates developed a rate of return of 9.08 percent. The staff financial witness testified that such rate of return will be reasonable for applicant.

Results of Operations

There is no dispute between Pacific and the staff concerning Pacific's overall test-year revenue requirement nor amount of increased revenues which will be reasonable and should be authorized in this proceeding. The staff, however, differed with Pacific concerning the treatment of certain revenue, expenses, and rate base items. Because there is no dispute with regard to Pacific's overall revenue requirement, the staff and Pacific agreed that certain issues need not be briefed or decided in this proceeding. On October 22, 1976, an agreement was reached that the issues of the appropriate methods to be used in making allocations of certain expenses, the inclusion or exclusion of the Libby Gas Turbine from rate base, the increase in the Bonneville Power Administration's (BPA) wheeling charges, the inclusion or exclusion of certain expenses in connection with the Centralia precipitator, and certain sales expense adjustments proposed by the staff would be deferred to a future proceeding. For the purposes of deciding revenues, expenses, and rate base, Pacific will accept the staff estimates on these matters for the purposes of this proceeding only.

Certain additional disputed issues must be considered as a result of Commission directives or actions in other proceedings.^{1/} With respect to those issues, Pacific does not contest in this proceeding staff's proposals relative to Chamber of Commerce dues or executive salaries. In addition, Pacific concedes the staff's adjustment to its BPA wheeling charge expense for purposes of this proceeding only, without conceding the validity of staff's reasoning supporting that adjustment.

As a result of the stipulation between Pacific and the staff, only two results-of-operations issues remain.^{2/} These issues are (1) adjustment of rate base to exclude the unamortized cost of acquisition of abandoned projects and related maintenance cost, and (2) the staff's imputation of revenue in connection with sales to irrigation customers made in accordance with a contract between Pacific and the United States Bureau of Reclamation (USBR contract).^{3/}

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- 1/ The issues for which no stipulation was reached are the executive salary adjustment, Chamber of Commerce dues, the accounting adjustments shown in staff Exhibit 13, page 2-1, the imputation of revenues as a result of the USBR contract and rate spread for agricultural uses.
 - 2/ Pacific urges in its brief that the Commission not rule on these two matters at this time. The brief states that because the reasonableness of Pacific's proposed revenue increase is conceded by staff, all revenue requirement issues are moot. Furthermore, the two issues are not among those which the Commission has declared must be resolved in all proceedings. Pacific argued that the disputes between Pacific and staff raise regulatory policy and constitutional questions which should be resolved at a time when the resolution will have some effect on the outcome of a rate increase request. Pacific states that any decision reached on these issues in this proceeding would be nonappealable, and therefore would have little, if any, value as precedent.
 - 3/ The imputation of revenues to Pacific in connection with the USBR contract potentially affects both Pacific's revenue requirement and its rate spread. In Exhibit 15, pages 2-1 and 2-6, staff proposes that Pacific's revenue deficiency be reduced by \$25,000 through the imputation of revenues under the USBR contract, and that the residential class revenue requirement be reduced by an equivalent amount.

In addition to the aforementioned issues, Farm Bureau raised the issue of appropriate rate levels for agricultural pumping. Treatment of Abandoned Projects

Staff recommends that abandoned projects and associated maintenance cost be excluded from rate base. Some 16 projects are involved, the largest of which is the High Mountain Sheep Project. The projects which have been abandoned are being amortized as an expense item over five years. Pacific has included the unamortized portion of those expenses in rate base until they are expensed, thereby earning a return on that portion.

Staff does not question the fact that these projects were prudent undertakings by Pacific. Nor does staff oppose the recovery of the costs associated with those projects. Staff is opposed to Pacific recovering more than its original costs by earning a return on the unamortized portion in rate base. The staff asserts that through that device, the ratepayer is paying Pacific \$2.11 in gross revenues to generate each dollar of revenue for a project that is neither used nor useful to the ratepayer.

The staff brief states that it can find no precedent for recovery of the cost of abandoned property plus a return on that same property, while the cost is being amortized. The staff argued that it is well settled that:

"The property upon the value of which a utility is entitled to a fair return is that 'devoted' to public service or 'used and useful' in public service or 'used useful or reasonably necessary' for public service." (Whitten-Wilcox on Valuation 2d ed. Vol. 1, p.803.)

The staff brief points to recent Commission decisions purportedly bearing on this issue. The brief indicates that in Decision No. 83160 dated July 16, 1974 in Application No. 53797 the Commission deleted from Southern California Gas Company's (SoCal) rate base the preliminary expenditures for a synthetic natural gas (SNG) project, which was later abandoned. In a subsequent opinion

(Decision No. 83881 dated December 17, 1974 in Application No. 55117) SoCal was permitted to amortize over a period of 60 months the engineering and planning costs of \$1,346,877 involved in the abandoned SNG project.

The staff urges that treatment of the projects of Pacific which are no longer used or useful in utility service should be the same as for those of other California utilities.

Pacific disagrees with the treatment of the deferred debits related to abandoned projects. Pacific's witness testified that Pacific will continue to incur such deferred debits because of abandonment of other generating sites. The witness explained that Pacific must acquire alternate sites for nuclear and coal-fired electric generating projects; and that the continuing acquisition of such sites is compelled by environmental restrictions, state regulatory requirements, and the requirements of the Federal Nuclear Regulatory Commission. The alternate sites not approved for construction of power plant facilities become abandoned projects. Pacific points out that the staff conceded that the projects in question were prudent undertakings, and similar abandonments of alternate generating plant sites will occur in the future.

Pacific argued that there is no parallel to the staff's accounting treatment for any other item on the staff report. Pacific's brief states that the staff acknowledged that the challenged expenses should be recovered by Pacific. Pacific argued that the staff's theory that the recovery of a return on the unamortized debits would allow Pacific a double recovery is at odds with the universal treatment of all other rate base items and ignores the cost of carrying the investment over the amortization period. Pacific urges that its treatment is correct because capital is devoted to the carrying of all of Pacific's investments, in order to receive the full recovery of an expense which is being amortized, Pacific must receive a reasonable return each year on the unamortized portion.

It appears that the adjustment made by the staff is based on the theory that Pacific should not earn a return on plant not actually placed in service and, thus, not used or useful in Pacific's public utility operations. This is the policy established by recent Commission decisions. The testimony shows that Pacific has required, and will require in the future, additional generating facilities in order to meet its public utility obligations; that, because of regulatory requirements, excess numbers of plant sites must be obtained and be available for use in addition to the plant sites ultimately approved by the several federal and state agencies involved; and that it cannot be determined by Pacific prior to final approval which of the plant sites will be used and which will become surplus. It is only in the recent past that electric utilities have had to seek multiple agency approval for new electrical generation plant sites. Therefore, this Commission must take a new look at its past methods of treatment of such expenses for accounting purposes. The accounting treatment recommended by the staff is appropriate for the purposes of this proceeding. The Commission must consider in future proceedings whether excess property should be treated for ratemaking purposes in the same manner as the treatment of plant which is used and useful in utility operations where the utility is obligated by a regulatory agency to acquire excess plant sites (or other utility property) in advance of approval of the use of such property by the agency with the full knowledge of the regulator that some portion of the property will never be used for public utility service.

The record shows that not all of the involved projects are excess plant acquired to provide alternate sites for new projects. For the purposes of this proceeding we find that the exclusion from rate base of the unamortized portion of acquisition and maintenance expense of excess plant in question will be reasonable.

Imputed Revenues From Customers
Served Under USBR Contract

On January 31, 1956, Pacific's predecessor, the California Oregon Power Company (COPCO), entered into a fifty-year contract with the United States Department of Interior (Bureau of Reclamation). This contract extended for fifty years an agreement of February 24, 1917, between the United States and predecessor of COPCO, which agreement had provided for the construction of the Link River Dam and for the regulation of Upper Klamath Lake. Among its many provisions, the USBR contract requires Pacific (as successor to COPCO) to supply electricity at specified rates for pumping by certain irrigators within the Upper Klamath River Basin Reclamation Project (Project) and for drainage of Project land. By its terms, the contract became effective only after it was reviewed and approved by the California Public Utilities Commission.

The contract was approved by the Commission in Decision No. 52809 dated March 27, 1956 in Application No. 37724. The Commission found that there was no unreasonable discrimination in the application of the rates and charges contained in the USBR contract under the particular circumstances then obtaining.

The terms of the contract provide that the rates specified therein may not be raised during the fifty-year term of the contract. Under Pacific's interpretation of the contract, violation of the contract terms could result in cancellation of the contract and loss of benefits to Pacific accruing under the contract.

Rate increases recently granted and those sought herein by Pacific widen the difference between the contract rates and Pacific's tariff rates for agricultural pumping purposes. The staff has imputed a 25 percent revenue increase for agricultural pumping service furnished to USBR special accounts because customers furnished water pursuant to the USBR contract are presently a class of customer who

is not receiving any rate increase while the company's other customers are receiving an average 25 percent. The staff believes that in a 20-year period after approval of the USBR contract by the Commission circumstances have changed substantially and there now exists a rate disparity between on-project and off-project agricultural users which is unduly discriminatory. The staff brief contains the following estimate of the revenue deficiency resulting from the USBR contract which must be made up by other customers.

	<u>Under Present Rates</u>	<u>Under Proposed Rates</u>
Annual Revenue if under PA-20	\$333,734	\$417,888
Actual Revenue	<u>100,000</u>	<u>100,000</u>
Difference (to be absorbed by other customers)	\$233,734	\$317,888

The staff brief points out that the difference under the proposed rates is approximately 18 percent of the Pacific's total revenue requirement in the present proceeding. Staff believes it unfair to ask other customers in the system to make up that difference.

Further, staff does not believe that an increase in rates to USBR customers in violation of the contract would have the catastrophic effect that Pacific describes. Staff argued that the contract may be subject to cancellation, if it does not immediately become void. The contract does not give the United States any right to use Klamath Water for the purpose of generating electric power so even if the contract were canceled Pacific would retain the right to generate electricity. Similarly, the contract provides specifically that cancellation shall in no way curtail or affect the rights which COPCO now has in the waters of Link River and the Klamath River. The staff argued that, at most, the right to release water from Link River Dam at Pacific's convenience would be lost.

The staff doubts that this is significant because it has no reason to believe that a federal agency taking over the operation of the dam would not cooperate with Pacific relative to the timing of water released for electrical generation, particularly in these energy-conscious days.

It should be noted that staff is not at this time proposing that Pacific be required to bring the approximately 160 USBR contract customers under the PA-20 rate schedules; the staff imputed that effect solely for computing proposed revenues. The staff brief states that if Pacific chooses not to pass that amount on to the USBR customers in the form of higher rates then presumably the stockholders will bear the difference.

On this issue, Decision No. 84234 dated March 25, 1975 in Application No. 54651, in which Pacific was last granted an increase, states as follows:

"The staff stated in its recommendations on rate design that it could not find any reason why all customers should not share the burden of the proposed rate increases. The staff has imputed a revenue increase of 23.7 percent to customers served by special contracts for which applicant proposed no rate increase. This would remove any burden of the special contracts on customers not served under their terms. Applicant has agreed to attempt to renegotiate its contract with the U.S. Bureau of Reclamation. It appears that applicant should renegotiate all long-term special contracts with fixed charges to reflect current costs of service and to equitably share with other customers the increases in such costs, unless it can be demonstrated that unreasonable discrimination does not exist and that all customers benefit from these special contracts."

Farm Bureau also argued that the staff adjustment is proper, and revenue should be imputed to Pacific as a noncollectible portion of its revenue requirement. Farm Bureau asserted that Pacific should not be permitted to collect revenues from its off-project (non-USBR) customers for the benefit of its on-project

customers and its shareholders in view of the refusal of the Commission to extend the lower USBR rates to other customers, (Decision No. 83659 dated August 29, 1956, in Application No. 37918).

In its brief, Pacific argued that no provision in the contract allows Pacific to alter the charges; according to the contract, if Pacific does not follow the literal terms of the agreement, the Secretary of the Interior may, upon 60 days' notice, cancel the contract and terminate Pacific's use of the Link River Dam and its appurtenances.

Pacific further argued that a directive by this Commission to reform the USBR contract is unconstitutional under the Supremacy Clause of the United States Constitution (Article VI, Clause 2), which purportedly bars the State of California from taking legislative or quasi-legislative action through ratemaking which impairs any contract lawfully entered into with an agency of the United States government. (Public Utilities Commission of California v United States 355 US 534, 2 L Ed 2d 470, 78 S Ct 446 (1958) reh. den. 356 US 925, 2 L Ed 2d 760, 78 S Ct 713.; and United States v Georgia Public Service Commission (1963) 371 US 285, 9 L Ed 2d 317, 83 S Ct 397.)

Pacific's brief emphasizes that the USBR contract was voluntarily made subject to prior Commission review and approval before the contract became effective and that the contract was considered by the Commission and it, like Pacific, believed the agreement to be prudent. Pacific argued that once approved, the contract became effective, and Pacific cannot now raise the rates called for by the contract; therefore, the staff's goal of forcing modification of the USBR rates cannot be attained and is unconstitutional. Pacific urges the Commission to reject the hypothetical USBR revenues advanced by staff.

Without deciding the constitutional question the directive in our prior decision, under which Pacific would seek renegotiation of the USBR contract, is rescinded. The imputation of a revenue increase to Pacific's USBR customers in the average percentage amount sought for all other customers does not infringe upon or impair its contract with USBR and, therefore, does not violate the constitutional supremacy clause. As indicated above there is a large disparity in revenues under the USBR contract rates and under rates generally applicable to agricultural pumping. While benefits may indirectly accrue to all customers of Pacific as a result of the USBR contract, the value of those indirect benefits and the value of the services which are offset by the extremely low rates for a narrow class of customers were approximately equal only at the time the contract initially was made. Certainly no one could foresee at the time the USBR contract was approved by this Commission that worldwide energy costs would escalate at the present rate, and that such a large rate disparity between USBR customers and other agricultural customers would result from the rapid increase in energy costs. What was prudent at the time the USBR contract was approved is no longer prudent. Thus, while no undue discrimination existed between classes of customers at that time, changed conditions result in undue discrimination between USBR and other customers at the present time. The customers already subject to substantially higher rates than the USBR rates should not be required to further subsidize USBR customers.

The Commission cannot require Pacific to raise its rates to USBR customers; the only means afforded it to offset the effect of what is now an unduly discriminatory low rate for USBR customers is to require Pacific to absorb that portion of the additional revenue requirements sought herein stemming from the maintenance of the depressed USBR rates. We find that the staff adjustment to revenues is reasonable and should be adopted.

Adopted Results of Operation

In view of the stipulation between applicant and the staff that resolution of certain contested matters should be deferred to a subsequent proceeding, the staff's test-year estimates of operating results will be adopted for the purposes of this proceeding.

We find the following estimates of operating revenues, expenses, including taxes and depreciation, the rate base, and rate of return for the test year ended September 30, 1975 are reasonable and such results of operations are adopted for the purposes of this proceeding.

TABLE I

PACIFIC POWER & LIGHT COMPANY

ADOPTED SUMMARY OF EARNINGS - CALIFORNIA ELECTRIC OPERATIONS

ADJUSTED 12 MONTHS ENDED
SEPTEMBER 30, 1975 AT PRESENT AND PROPOSED RATES
 (Dollars in Thousands)

<u>ITEM</u>	<u>PRESENT RATES</u>	<u>PROPOSED RATES</u>
<u>Operating Revenues</u>		
Residential Sales	\$ 5,836	\$ 7,350
Commercial & Industrial	5,943	7,377
Sales to Special Agencies	119	145
Special Sales	371	371
Temperature Adjustment	(9)	(11)
Other Revenue	268	268
Total Operating Revenues	<u>12,528</u>	<u>15,500</u>
<u>Operating Expenses</u>		
Production Expense	3,058	3,058
Transmission Expense	440	440
Distribution Expense	870	870
Customer Accounts	418	422
Sales	67	67
Administrative and General	<u>1,160</u>	<u>1,182</u>
Subtotal	6,013	6,039
Depreciation and Amortization	1,795	1,795
Taxes other than Income	1,002	1,002
State Corp. Franchise Tax	33	298
Federal Income Tax	<u>(43)</u>	<u>962</u>
Total Operating Expenses	8,800	10,096
Net Operating Revenues Adjusted	3,728	5,404
Rate Base	59,519	59,519
Rate of Return	6.26%	9.08%

(Red Figure)

Rate Design - General

Pacific and the staff presented proposed schedules of rates (in Exhibits 8 (revised) and 15, respectively) designed to yield approximately \$2,974,000 additional annual revenues. Both proposals contain lifeline rates for quantities of electric energy necessary to supply the minimum energy needs of the average residential user for space heating, water heating, lighting, cooking, and food refrigeration, pursuant to the Miller-Warren Lifeline Act and Interim Decision No. 86087 dated July 13, 1976 in Case No. 9988.

The only rate-spread issues requiring decision relate to the spread of Pacific's total revenue requirement among its customer classes.^{4/}

Both Pacific and the staff propose a uniform increase in cents per kilowatt-hour for all electric energy furnished in addition to lifeline quantities. Pacific proposes to add 0.525 cents per kilowatt-hour to each rate schedule. That rate increase will result in an overall average increase in revenues of 25 percent, although some rate schedules applicable to commercial and industrial usage will be increased by greater percentage amounts.^{5/}

The staff has accepted Pacific's proposal for spreading its increased revenues among the customer classes, with one exception. Staff recommended that the increase in revenues from

^{4/} Pacific proposed the establishment of vintage rates for street lighting; the staff concurs, but recommends that the date on which the vintage rates take effect should be the effective date of the order. The staff also recommends that, in future rate cases, the charges for incandescent street lights be raised to a level that will cause the installation of more efficient types of lights to present an economically attractive alternative to incandescent street lighting.

^{5/} For example, rates under Schedule AWH-31 would increase 64.0 percent; under Schedule PA-20, 33.1 percent; and under Schedule A-33, 30.3 percent.

residential customers be reduced from \$1,514,000 to \$1,459,000, which would decrease the percentage increase for residential customers from 25.9 percent to 25.0 percent. The staff proposes that this reduction in residential revenues be recovered by a uniform cents per kilowatt-hour increase to the commercial A-32 and A-36 schedules and through the imputed \$25,000 revenue increase from USBR contract customers.

Rate Spread - Residential Rates

The staff witness based the proposed modification of residential rates on the fact that application of lifeline principles would cause residential tail-block rates to increase more than 60 percent and that such a large increase would have a tremendous impact on domestic customers. The witness recommended the overall residential rate be reduced in order to ease this impact. However, on cross-examination, the witness acknowledged that the residential customers who take energy in the tail-block rates also receive benefits under the lifeline rate. For example, in the climatic zone which Pacific serves, an all-electric customer during the winter months would receive lifeline rates for the first 1,610 kilowatt-hours of consumption; and in Pacific's service territory, a space heating customer who used up to 3,000 kilowatt-hours a month during the winter would experience a rate increase of 25.0 percent or less. The record also shows that the tail-block rates proposed by Pacific are considerably lower than PG&E's tail-block rates.

The record does not support the staff's contention that Pacific's nonlifeline residential customers would face an unusually abrupt rate increase. On the contrary, the record indicated that only very high users of electricity would face as much as a 25.0 percent increase, which is the average revenue increase Pacific seeks. Also, even for the very high use customers, the increase would be far less than suggested by the tail-block rate increase, because high-use customers also would receive lifeline benefits.

We find that the staff's proposed reduction of Pacific's proposed residential rate increase is not supported by the evidence of record and conclude that it should be rejected. We will authorize a revenue increase of \$1,514,000 for the residential customers. Consistent with Commission decisions on other electric utilities, we are revising the residential rate structure toward eliminating declining block rates while maintaining the requirements of the lifeline act by reducing the number of declining blocks from four to two. The residential rates authorized herein result in no increase for lifeline usages under a rate structure of two energy blocks and a minimum charge.

Rate Design - Agricultural Pumping Rates

As heretofore indicated Farm Bureau members who are located in and near Yreka testified in opposition to increases in electrical rates for agricultural pumping. The tenor of their testimony is that recent agricultural prices are static or down while, in the same period, all operating costs for growing fodder and feeding of cattle have risen. Extensive irrigation is necessary to produce fodder in the areas where the ranchers are located, and pumping costs are a significant portion of the witnesses' operating costs. Further increases in charges for electricity for pumping irrigation water would adversely affect ranching operations which now are only marginally profitable.

Farm Bureau, in its brief, recites that the company's proposal is to achieve an overall revenue increase of 25 percent by increasing all rates by 0.525 cents per kilowatt-hour and that such uniform increase per kilowatt-hour produces a 33.1 percent increase for service under Schedule PA-20 under both the staff and Pacific's recommended rate design.

Farm Bureau contends that inverted tail-block rates should be established to promote conservation for all schedules other than those applicable to agricultural pumping; and that the increased revenues from customers who decide not to conserve should be used to provide reduced rates to the agricultural pumping class. Cross-examination by Farm Bureau developed that under Pacific's proposal, domestic customers can use up to 1,000 kilowatt-hours during the

summer and 3,000 kilowatt-hours during the winter before a 25 percent increase in cost of electricity is achieved. Farm Bureau asserts that the domestic rate proposals permit exorbitant amounts of energy to be used by domestic customers before the average increase is achieved; the staff's and Pacific's proposals, therefore, do not comply with prior orders which encourage conservation.

Farm Bureau also argued that the record shows that agricultural pumping in the summer and fall occurs in a different period from Pacific's system peaking period in the winter months, inasmuch as net system load is 20 percent lower in summer than in winter. Farm Bureau argued that agricultural pumping cost of service should be appreciably lower than for other classes of service because of its service characteristics; therefore, demand charges should be less than those to other customer classes. Farm Bureau urged that Pacific has not justified an increase to the agricultural pumping class at a greater percentage than the system average on the basis of a higher cost of service.

In support of its proposed Schedule PA-20, Pacific argued as follows: Although the Farm Bureau advanced no explicit alternate rate proposal, it contrasted Pacific's method of spreading rates with an equal percentage increase to all customers. With an equal percentage spread, the PA-20 rate increase would drop from 33.1 percent to 25.0 percent and the increases to some of the other customer classes would be more than proposed by Pacific. Pacific stated that despite the Farm Bureau's apparent dissatisfaction with Pacific's proposed irrigation rates, these rates remain less per kilowatt-hour than the charges assigned to any other major customer class of Pacific's, including residential service and both small and large general services. In addition, the PA-20 rates are generally lower than the rates charged irrigators by Pacific Gas and Electric Company (PG&E); for example, for a 50-kilowatt pump, the proposed rate for 40,000 kilowatt-hours is \$698.70, PG&E charges \$873.00 for the same service.

Pacific disputed Farm Bureau's contention that the disparity between revenues from Schedule PA-20 customers and revenues from Pacific's other major classes of customers should be made even greater than Pacific proposes because irrigation customers consume energy during off-peak periods. Pacific argued that the predominant cause of Pacific's need for increased revenue has been and will continue to be related to the capital and operating costs associated with producing kilowatt-hours. Pacific, therefore, proposed a form of increase which could be applied in a generally uniform manner across the full spectrum of customer loads and which would most appropriately reflect the greatly increased revenue requirements resulting from plant that has been and is being added to meet the energy requirements of Pacific's customers. Pacific stated that such an increase must be distributed in proportion to the energy consumption of each customer.

Pacific further contended that the evidence shows that there is no particular benefit to Pacific in having a greater load in the summer months as opposed to the winter months, or at night, as opposed to the daytime, because Pacific's firm resource limitation is energy, and not capacity, and that there is no season of the year in which Pacific maintains excess capacity outside of a necessary reserve margin.

We find that, contrary to the contention of Farm Bureau, the service of agricultural pumping does not provide a benefit to Pacific because of the time of year or time of day in which the energy is used. We also find that the proposed agricultural pumping rates of Pacific are below the rates maintained by PG&E for the comparable service, but are substantially above the rates for project customers under the USBR contract; therefore, in order to minimize the difference in rates between USBR customers and customers taking service under Schedule A-20, the increase in Schedule A-20 rates should not exceed the average 25 percent increase to all customers. The \$25,000 imputed to USBR customers should offset the revenue deficiency resulting from holding Schedule A-20 rates at the

average increase to all customers. The balance of the revenue deficiency resulting from the difference in Schedule A-20 rates proposed by Pacific and the staff and the increase found reasonable above should be spread to other commercial and industrial customers.

Rate Design - Conservation

In Decision No. 85559 dated March 16, 1976 in Case No. 9804, Commission Investigation into Electric Utility Rate Structures Re Changes to Encourage Conservation of Energy, the Commission made findings on various aspects of conservation.

The staff was requested by the examiner to address the issue of pumping power rates for agricultural users in light of Findings 77 through 82 in Decision No. 85559.^{6/} It is staff's position

6/ The findings in question are the following:

"C. The effect of rates based on average costs incurred by a utility on the conservation of electricity.

- "77. Important reductions in sales of electric energy have already been achieved under the operation of rates based on average costs because of significant price increases, voluntary conservation brought about by the fuel oil shortage and shortages of gasoline, mandatory energy curtailment, and threatened reductions in service and possible loss of service if conservation were not achieved.
- "78. Pricing electricity above the value of service may cause an uneconomic switch to self-generation by industry or a switch to other fuels.
- "79. If this Commission establishes electric rates for California industries which are considerably higher than electric rates which are charged competitive industries elsewhere, it may result in a loss of the competitive position of the California industries in the national and international markets and may give the California industries an incentive to move to more favorable geographic locations with a consequent loss of jobs and reduction of the economic base in California.

(Continued)

that its recommended rate design (Exhibit 15) takes full cognizance of these findings. Each finding is discussed below together with an explanation of how the recommended rate design is in agreement with the finding:

"Finding 77 deals with reduction in sales of electricity. The staff recommended a uniform cents per kilowatt-hour rate increase. This type of increase tends to encourage reductions in sales by leveling the declining block rate structure.

"Finding 78 deals with pricing electricity above the value of service. Pacific's industrial customers already carry a large share of the company's revenue requirement. In the absence of any cost of service study, the staff did not recommend that the industrial customers' share of the revenue requirement be increased. The staff also recommended that revenue short-fall due to lifeline rates be confined to domestic customers rather than spread to all classes of customers.

6/ (Continued)

- "80. Agricultural pumpers use electric energy to meet irrigation water needs which are relatively inelastic. Increases in electric rates to agricultural pumpers through electric rate structure revision will ultimately increase the cost of food and fibre.
- "81. The era of abundant and low-cost energy has passed and we are now faced with energy shortages and soaring energy costs. Average costs alone are no longer controlling when conservation is a principal consideration in establishing the electric rate structures for California utilities. Both average and incremental costs should be considered in establishing electric rates.
- "82. The Commission should continue carefully to consider the economic consequences of its ratemaking policies in future proceedings."

"Finding 79 deals with comparison of industrial rates in California with those in other states. The staff feels that Pacific industrial rates are still quite competitive with those of other utilities in California and in other states. The staff believes that its recommended rate design will maintain this competitive position.

"Finding 80 deals with agricultural rates. The staff recommended agricultural customers receive the same cents per kilowatt-hour increase as all other customers even though this resulted in a higher percentage increase to the agricultural customers than that given to other classes. It is true that the agricultural increase will probably result in increases in the cost of food and fibre, but an increase to industrial customers results in an increase of the cost of manufactured merchandise, and the increase metered out to domestic customers was thought to be all that could be borne without excessive hardship. Agricultural customers still pay the lowest average unit price for energy.

"Finding 81 deals with incremental costs. The staff's recommended rate design is based on incremental cost. The major cause of the need for increased rates in this case was investment in base load generation. The incremental costs in this case are energy related and a uniform cents per kilowatt-hour form of increase best reflects these costs.

"Finding 82 deals with economic consequences of ratemaking policies. The staff carefully considered the economic consequences of its recommended rate design and feels that a balance has been struck such that no one class of customer bears an unfair share of the increase."

We have carefully analyzed the staff comments and conclude that the rate design proposed by Pacific (with the exception of agricultural pumping rates) comports with the conservation principles and aims set forth in the findings and order in Case No. 9804.

Pacific's Conservation Program for 1977

Pacific's late-filed Exhibit 9 contains its proposed conservation program.^{7/} Late-filed Exhibit 9-A filed by the Commission's Energy Conservation Team contains the staff's analysis of Pacific's program and recommendations.

Pacific's 1977 conservation program set forth in Exhibit 9 consists of three program activities as follows:

- A. Energy Guard Inspection Program - An energy audit program which will be available to all customers.
- B. Registered Dealer Program - An energy savings devices sales program to be handled with dealers of hardware and building supplies and through direct sales at Pacific business offices.
- C. Insulation Program - A direct sales and advice program for retrofit insulation.

The staff's comments and conclusions contained in Exhibit 9-A are as follows:

1. Pacific's Application No. 56395 is based on a recorded test period for the twelve months ending September 30, 1975. Since the proposed energy conservation programs are scheduled to begin in late 1976, no costs for these programs are or will be included in the pending proceeding.
2. The 1976 development and implementation costs are estimated to be \$25,400 equating to approximately \$1.15 per customer during calendar year 1976. This expense would apply for rate-fixing purposes only if Pacific files an application using a 1976 test period some time in the future.
3. The Pacific energy conservation program is scheduled to be in operation during 1977 and the costs of operating the program for a full year are estimated at \$68,650 or approximately \$3.10 per customer during calendar year 1977. Staff believes that this is the annual level of

^{7/} At the request of the staff, after its analysis, Pacific filed substituted pages 4 and 6 to Exhibit 9 to correct certain minor errors and omissions detected by the staff.

- expenses that Pacific will seek to recover through rates in some future rate proceeding.
4. The Energy Conservation Team staff is concerned about the relatively high cost of one of the three programs, the Registered Dealer Program, which will cost about \$1.50 per customer in 1977. The program according to Pacific has a very high potential for energy savings and should be implemented. Staff agrees that this program should be implemented at this time; however, it should be closely monitored for continued cost effectiveness.
 5. Staff believes that the two other programs for energy audits and retrofit insulation are promising and will yield worthwhile results if carried out as planned. The cost of this effort, and indeed the whole conservation program as proposed is not excessive, on an annualized basis, considering the fact that heating is by electricity in most of Pacific's service area. Therefore, the conservation effort of Pacific should be equated to that of a combination heating (gas) and electric energy utility. Also, not to be forgotten, is the fact that Pacific serves only about 25,000 customers in California reducing the potential for economy of scale necessary for a broad conservation effort.
 6. Pacific's conservation expenditures began in late 1976; therefore, there is no requirement for any allowance of these costs in Application No. 56395 test year 1975 adopted results.
 7. Pacific's proposed 1977 energy conservation program budgeted expenses of about \$25,400 for 1976 development and implementation costs, and \$68,650 are not unreasonable. However, the programs should be carefully monitored for continued cost effectiveness.
 8. Prior to consideration by the Commission of the \$68,650 in a future Pacific application for rate relief on a 1977 test year basis, the utility should provide additional evidence as to the continued cost effectiveness of its conservation programs.

9. Pacific should not be penalized for lacking an effective conservation program in Application No. 56395 because that application is based on a test period ended September 30, 1975. However, Pacific's conservation programs should be included in any study recommending future test year adopted results and rate of return.

The Energy Conservation Team made the following recommendations to the Commission in staff Exhibit 9-A:

1. Pacific should be authorized to carry out its proposed conservation program as set forth in late-filed Exhibit 9 (as corrected).
2. Pacific should be directed to report annually on the effectiveness of its energy conservation programs. However, the first report should be filed no later than August 31, 1977, for the six-month period ending June 30, 1977. Subsequent calendar year reports should be filed no later than March 31 of the year following the calendar year period involved.
3. Pacific should also be directed to file its proposed 1978 energy conservation programs by December 1, 1977.
4. Pacific should be directed to carefully monitor its conservation programs to insure that continued cost effective results are obtained. Should any program fail to meet cost effectiveness goals, then it should be dropped or changed for improved results.

Findings

1. The adopted estimates, previously discussed herein, of operating revenues, operating expenses, and rate base for the test year ended September 30, 1975 reasonably indicate the results of applicant's operations in the near future.
2. A rate of return of 9.08 percent on the adopted rate base and a return on common equity of 12.45 percent are reasonable.
3. Annual revenues will be increased \$2,974,000 by the rates herein authorized.

4. The increases in rates and charges authorized herein are justified, the rates and charges authorized herein are reasonable, and the present rates and charges, insofar as they differ from those prescribed herein, are for the future unjust and unreasonable.

5. An increase in rates of 25 percent for agricultural pumping in Schedule A-20 will not result in undue discrimination.

6. The rate spread herein provides for the establishment of lifeline rates for residential customers in accordance with the Miller-Warren Lifeline Act based on the lifeline quantities of electricity approved in Decision No. 86087 dated July 13, 1976 in Case No. 9988.

7. The rates adopted herein give due consideration to and are consistent with the conservation goals expressed in Decision No. 85559 dated March 16, 1976 in Case No. 9804.

Conclusions

1. Applicant should be authorized to establish the increased rates found reasonable above.

2. Vintage rates for street lighting should become effective on the effective date of this order.

3. In future rate proceedings Pacific should consider increasing the charges for incandescent street lights to a level that will cause more efficient types of lights to be installed.

4. Pacific should be ordered to discontinue charging interest during construction (AFDC) on California customer advances, and should be required to reverse on its books \$68,000 erroneously recorded (as of September 30, 1975) in California electric plant in service.

5. The conservation plan for 1977 set forth in Exhibit 9 should be implemented. Pacific should be directed to report annually on the effectiveness of its energy conservation programs; the first such report should cover the six-month period ended June 30, 1977 and should be filed with the Commission's Energy Conservation Team on or before August 31, 1977. Pacific's 1978 proposed energy conservation program should be filed by December 1, 1977. Pacific should carefully monitor the cost effectiveness of its conservation programs, and any program which fails to meet its effectiveness goals should be discontinued or revised.

6. Pacific is again placed on notice that this Commission will monitor the continuing effectiveness of its energy conservation efforts and will evaluate the utility's vigor and imagination in implementing and expanding its energy conservation programs when deciding upon a fair rate of return in future Pacific rate cases.

O R D E R

IT IS ORDERED that:

1. Pacific Power & Light Company (Pacific) after the effective date of this order is authorized to file the revised rate schedule attached to this order as Appendix A. Such filing shall comply with General Order No. 96-A. The effective date of the revised schedules shall be five days after the date of filing. The revised schedules shall apply only to service rendered on and after the effective date of the revised schedules.

2. Pacific is directed to make the accounting changes referred to in Conclusion 4 of the above opinion.

3. Pacific is directed to report annually on the effectiveness of its energy programs; the first such report covering the six-month period ended June 30, 1977 shall be filed on or before August 31, 1977.

4. Pacific is authorized to place in effect the conservation programs for 1977 set forth in Exhibit 9 (revised). Pacific shall file its proposed conservation plans for 1978 on or before December 1, 1977.

5. Vintage rates for street lighting set forth in Appendix A shall be filed to become effective on the effective date hereof.

The effective date of this order shall be twenty days after the date hereof.

Dated at San Francisco, California, this 9th day of MARCH, 1977.

Robert Bateman
President

William S. Symons, Jr.

Richard D. Brackley
Commissioners

Commissioner William Symons, Jr., being necessarily absent, did not participate in the disposition of this proceeding.

APPENDIX A
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RATES - PACIFIC POWER & LIGHT COMPANY

Applicant's electric rates, charges, and conditions are changed to the level or extent set forth in this appendix.

Schedule No. AWH-31

COMMERCIAL WATER HEATING SERVICE

NO NEW SERVICE

RATES

Energy Charge:
All kwhr, per kwhr 1.97¢

Minimum Monthly Charge:
\$3.00, plus \$1.40 for each kw in excess of 10 kw of total capacity of all heating units which may be operated at one time.

Schedule No. A-32

GENERAL SERVICE

RATES

	<u>Per Meter</u> <u>Per Month</u>
Basic Charge:	
For single-phase service	\$3.00
For three-phase service	5.50
Energy Charge:	
First 60 kwhr per kw of Billing Demand but not less than the first 1,200 kwh	3.72¢
Next 60 kwhr per kw of Billing Demand but not less than the next 1,200 kwhr	3.31¢
Next 5,000 kwhr, per kwhr	2.92¢
Next 15,000 kwhr, per kwhr	2.06¢
All Additional kwhr, per kwhr	1.56¢

Minimum Charge:
The Basic Charge plus \$1.40 for each kw of Billing Demand in excess of 20 kw.

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RATES - PACIFIC POWER & LIGHT COMPANY

Schedule No. A-36

LARGE GENERAL SERVICE - Optional
100 KW AND OVER

RATES

		<u>Per Meter</u> <u>Per Month</u>
Demand Charge:		
First 100 kw of Billing Demand, or less		\$120.00
Next each additional kw of Billing Demand		1.25
Energy Charge:		
First	30 kwhr per kw of Billing Demand, but not less than the first 5,000 kwhr	2.72¢
Next	20,000 kwhr, per kwhr	2.12¢
Next	50,000 kwhr, per kwhr	1.61¢
Next	100,000 kwhr, per kwhr	1.41¢
Next	200,000 kwhr, per kwhr	1.28¢
	All Additional kwhr, per kwhr	1.18¢

Schedule No. D

RESIDENTIAL SERVICE

RATES

		<u>Per Meter Per Month</u>	
		<u>Lifeline</u>	<u>Non-Lifeline</u>
		<u>Rates</u>	<u>Rates</u>
Energy Charge:			
First	50 kwhr, per kwhr	\$2.50	\$2.50
Next	250 kwhr, per kwhr0303	.0303
	Additional kwhr, per kwhr0158	.02657

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RATES - PACIFIC POWER & LIGHT COMPANY

Schedule No. D

RESIDENTIAL SERVICE (Continued)

SPECIAL CONDITIONS

5. The following quantities of electricity are to be billed at the rates for lifeline usage:

<u>End Use</u>	<u>Kwhr Lifeline Allowance Per Meter Per Month</u>
Basic Residential Use	240
Electric Water Heating.....	250
Permanently Installed Electric Space Heating (Nov. 1 through April 30).....	1,120

Energy used in excess of the lifeline allowance will be billed at the non-lifeline rate, continuing from the quantity reached by the lifeline allowances.

6. Electric water heating is defined as permanently installed and wired electrical devices which provide the principal source of heat for hot water.

7. Permanently installed electric space heating is defined as any of the following: permanently installed and wired resistive elements which provide the principal source of heat, heat pumps, or any permanently installed water or steam heating using electric heating devices as the principal source of heat. Space heating lifeline allowance is applicable only for the period of November 1 through April 30.

8. The lifeline allowances for space heating will be prorated in the May and November billing periods based on the ratio of the number of days prior to May 1 and subsequent to October 31, respectively, to the total number of days in the billing period.

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RATES - PACIFIC POWER & LIGHT COMPANY

Schedule No. DS

MULTI-FAMILY RESIDENTIAL SERVICE - SUBMETERED

RATES

The rate of the single-family domestic service schedule, less 10% discount on the rates applicable to lifeline usage.

SPECIAL CONDITIONS

9. Electric water heating is defined as permanently installed and wired electrical devices which provide the principal source of heat for hot water.

10. Permanently installed electric space heating is defined as any of the following: permanently installed and wired resistive elements which provide the principal source of heat, heat pumps, or any permanently installed water or steam heating using electric heating devices as the principal source of heat. Space heating lifeline allowance is applicable only for the period of November 1 through April 30.

11. The lifeline allowances for space heating will be prorated in the May and November billing periods based on the ratio of the number of days prior to May 1 and subsequent to October 31, respectively, to the total number of days in the billing period.

12. Three-phase load will be supplied service under this schedule for multi-family residential customers who were supplied three-phase service on a general service schedule on January 1, 1977.

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RATES - PACIFIC POWER & LIGHT COMPANY

Schedule No. DM

MULTI-FAMILY RESIDENTIAL SERVICE - MASTER METERED

RATES

The rate of the single-family domestic service schedule.

SPECIAL CONDITIONS

8. Electric water heating is defined as permanently installed and wired electrical devices which provide the principal source of heat for hot water.

9. Permanently installed electric space heating is hereby defined as any of the following: permanently installed and wired resistive elements which provide the principal source of heat, heat pumps, or any permanently installed water or steam heating using electric heating devices as the principal source of heat. Space heating lifeline allowance is applicable only for the period of November 1 through April 30.

10. The lifeline allowances for space heating will be prorated in the May and November billing periods based on the ratio of the number of days prior to May 1 and subsequent to October 31, respectively, to the total number of days in the billing period.

11. Three-phase load will be supplied service under this schedule for multi-family residential customers who were supplied three-phase service on a general service schedule on January 1, 1977.

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RATES - PACIFIC POWER & LIGHT COMPANY

Schedule No. LS-57

STREET AND HIGHWAY LIGHTING SERVICEI. NET MONTHLY RATE PER LIGHT - CUSTOMER-OWNED

Class A: Customer owns, installs, operates, and maintains entire required installation. Utility delivers energy at one point only as near as practical to the customer's installation.

Class B: Customer owns and installs entire required installation. Utility delivers energy at one point only as near as practical to the customer's installation. Utility operates and maintains entire required installation except for the painting, repair and replacement of poles, and circuits.

<u>NOMINAL LUMEN RATING</u>	<u>CLASS A</u>	<u>CLASS B</u>
	<u>INCANDESCENT</u>	
1,000	\$0.75	\$2.00
2,500	1.50	2.80
4,000	2.45	3.80
6,000	3.35	4.75
	<u>MERCURY VAPOR</u>	
7,000	\$1.55	\$2.30
21,000	3.55	4.35
55,000	8.45	9.55
	<u>FLOUORESCENT</u>	
21,400	\$3.35	\$5.35

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RATES - PACIFIC POWER & LIGHT COMPANY

Schedule No. LS-57

STREET AND HIGHWAY LIGHTING SERVICE
(Continued)

II. NET MONTHLY RATE FOR LIGHTS OWNED, OPERATED AND MAINTAINED
BY UTILITY AND INSTALLED PRIOR TO MAY 10, 1976.

A. Overhead System

Street lights on distribution type wood poles:

Incandescent Lamps					
Nominal Lumen Rating	600	1000	2500	4000	6000
Rate per Lamp	\$2.50	\$2.60	\$3.85	\$4.85	\$6.00
Mercury Vapor Lamps					
Nominal Lumen Rating				7000	21000
Rate per Lamp - horizontal				\$4.80	\$7.55
Rate per Lamp - vertical				4.25	7.20

Street lights on metal poles:

Mercury Vapor Lamps					
Nominal Lumen Rating				7000	21000
Rate per Lamp					
Horizontal				\$7.05	\$ -
Horizontal					10.35

B. Underground System

Street lights on metal poles:

Mercury Vapor Lamps					
Nominal Lumen Rating				7000	21000
Rate per Lamp					
Horizontal				\$ -	\$13.95
Vertical				-	11.95

RATES - PACIFIC POWER & LIGHT COMPANY

Schedule No. LS-57

STREET AND HIGHWAY LIGHTING SERVICE
(Continued)

III. NET MONTHLY RATE FOR LIGHTS OWNED, OPERATED AND MAINTAINED BY UTILITY AND INSTALLED AFTER MAY 10, 1976.

A. Overhead system, mercury-vapor street lights

Street lights on distribution type wood poles:

Nominal Lumen Rating	7000	21000	55000
Rate per Lamp	\$5.55	\$8.15	\$15.60

B. Overhead system, high-pressure, sodium-vapor street lights

Street lights on distribution type wood poles:

Nominal Lumen Rating	9500	16000	25500	50000
Rate per Lamp	\$8.60	\$9.35	\$10.55	\$13.50

IV. NET MONTHLY RATE FOR STREET LIGHTS OF SIZES AND TYPES NOT OTHERWISE PROVIDED IN THIS SCHEDULE

A. For systems owned, operated, and maintained by Utility.

A flat rate equal to one-twelfth of Utility's estimated annual cost for operation, maintenance, fixed charges, and depreciation applicable to the street lighting system, including energy costs as follows:

- For dusk to dawn operation at the rate of 1.55¢ per kwh
- For dusk to midnight operation at the rate of 2.05¢ per kwh

B. For systems owned by customer.

For electric service delivered to customer's system and at Utility's option, either metered or unmetered, at either the primary or secondary voltage of Utility-owned transformers:

All kwh delivered at the rate of 2.05¢ per kwh

Where Utility furnishes operation and maintenance service, an additional flat rate equal to one-twelfth of Utility's estimated annual costs therefor shall be charged.

In the event customer installs a series system, customer shall also provide, install, and maintain the necessary series transformers.

SPECIAL CONDITIONS

6. Utility may not be required to install or maintain street lights employing fixtures or supports or at locations unacceptable to Utility.

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RATES - PACIFIC POWER & LIGHT COMPANY

Schedule No. OL-15

OUTDOOR AREA LIGHTING SERVICE

RATES

<u>Nominal Lamp Rating</u>	<u>Per Luminaire Per Month</u>
7,000 lumens	\$ 5.45
21,000 lumens	9.40
55,000 lumens	17.50

Schedule No. OL-42

AIRWAY AND ATHLETIC FIELD LIGHTING SERVICE

RATES

	<u>Per Meter Per Month</u>
Energy Charge:	
All kwhr, per kwhr	3.88¢
Minimum Charge:	
\$3.00 per meter per month for single-phase service and \$8.00 per meter per month for three-phase service, but in no event will the annual billing be less than \$1.00 per kilowatt or \$1.00 per horsepower of connected load.	

Schedule No. PA-20

AGRICULTURAL PUMPING SERVICE

RATES

	<u>Per Meter Per Month</u>
Demand Charge:	
First 25 kw of Billing Demand, per kw	\$1.50
Next 25 kw of Billing Demand, per kw	1.10
Excess Billing Demand, per kw85
Energy Charge (to be added to the Demand Charge):	
First 1,500 kwhr, per kwhr	2.49¢
Next 5,500 kwhr, per kwhr	1.99¢
Next 7,000 kwhr, per kwhr	1.49¢
Next 16,000 kwhr, per kwhr	1.31¢
All Additional kwhr, per kwhr	1.22¢