

Decision No. 87196

ORIGINAL

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.

(Electric)

Application No. 57122
(Filed March 3, 1977)

Malcolm H. Furbush, Robert Ohlbach, and William H.
Edwards, by William H. Edwards, Attorney at Law,
for Pacific Gas and Electric Company, applicant.
Brobeck, Phleger & Harrison, by Gordon E. Davis
and William H. Booth, Attorneys at Law, for
California Manufacturers Association, interested
party.
James S. Rood, Attorney at Law, for the Commission
staff.

O P I N I O N

PG&E's Proposal

Pacific Gas and Electric Company (PG&E) seeks authority to increase its electric rates and charges under the Energy Cost Adjustment Clause (ECAC) of its electric tariff. PG&E states that the proposed rates would increase its electric revenues by 13.2 percent or \$63.2 million for the three-month period April 1 through June 30, 1977, when the next adjustment under the energy cost adjustment procedure is scheduled to occur.

The ECAC adjustment which PG&E proposed to implement on April 1, 1977 is comprised of two parts: (1) an increase in the offset rate to reflect the full amount found by the Commission to be justified under the ECAC procedure in Decision No. 86826 dated January 5, 1977 in Application No. 56810, but at PG&E's request not

fully implemented at that time; and (2) an increase in the balancing rate to reflect the amount in the balancing account on January 31, 1977, which amount represents PG&E's actual energy costs not yet recovered through the rates charged its customers. PG&E requests no change in the fuel collection balance adjustment rates.

Under PG&E's proposal, no increase would be applied to the rates for lifeline quantities of electrical usage.

Background

On April 27, 1976, the Commission issued Decision No. 85731 in Case No. 9886, its investigation into fuel cost adjustment procedures ordering each respondent utility, including PG&E, to file an ECAC conforming to the elements set forth in the decision. On April 28, 1976, PG&E filed Advice Letter No. 536-E requesting authorization to place such an ECAC into effect. By Resolution No. E-1559 dated May 4, 1976, this Commission authorized the ECAC which PG&E had filed in Advice Letter No. 536-E to become effective on the date of the resolution. PG&E filed for its first energy cost adjustment under the ECAC in Application No. 56160, as amended, and this Commission authorized revised adjustment rates in Decision No. 85986 dated June 15, 1976.

On October 14, 1976, in Application No. 56810 PG&E filed for its second energy cost adjustment under the ECAC procedure. By Decision No. 86826 dated January 5, 1977, the Commission authorized revised adjustment rates designed to recover an additional \$144,386,000 during the six-month period January 1, 1977 through June 30, 1977. PG&E had proposed this adjustment in an effort to stabilize rates although, as this Commission found, an increase of \$187,085,000 would have been justified under the ECAC procedure. The Commission authorized PG&E to add the \$42,699,000 difference, as it was actually realized, to the Electric Energy Cost Adjustment Account for recovery in future balancing rates.

Public hearing in this application was held in San Francisco on April 4, 1977 before Examiner James F. Haley.

The Issues

The issues presented by this application are:

1. Is making an ECAC adjustment justified at this time?
2. Is the magnitude of the proposed ECAC adjustment reasonable?

The ECAC procedure, itself, is not at issue - only that aspect of the procedure which provides for semiannual energy cost adjustments. PG&E's filing conforms to the procedure established by Decision No. 85731 and Resolution No. E-1559 except to the extent that it seeks an energy cost adjustment three months after one was authorized to become effective.

Nor is the question of whether lifeline quantities of electric usage should bear some portion of the increased fuel cost adjustment at issue in this application. With this proposed ECAC adjustment, PG&E's average system electric rates will continue to be more than 25 percent above its average system electric rates effective January 1, 1976. In Decision No. 86826, where the 25 percent differential was reached, the Commission deferred application of any increase to lifeline rates pending further developments in Case No. 9988, the Commission's investigation concerning lifeline rates, scheduled to begin March 14, 1977. This application introduces no factors which would require the Commission to depart from this position prior to the resolution of the issue in Case No. 9988.

Position of the Commission Staff

The Commission staff recommended that PG&E be granted the full amount of the increase requested. The staff engineer agreed

with PG&E's spread of the increase, i.e., a uniform increase in charge per kilowatt-hour for nonlifeline usage. The staff accounting witness testified that although the staff's audit of the balancing account has not been completed, the \$291,522,000 balance shown in the application is a reasonable figure to use for rate fixing.

Under the ECAC procedure the Commission has the opportunity to review the reasonableness of PG&E's fuel and energy purchases at the time of the next ECAC filing. The operation of the balancing account will produce adjustment for whatever correction to the account may result from the examination to be completed by staff auditors.

Increased Fossil Fuel Consumption

PG&E states that the proposed energy cost adjustment is necessary for several reasons. In Application No. 56810 PG&E, in an effort to stabilize rates, proposed a lesser adjustment than justified under the ECAC procedure, subject to certain conditions. The three conditions cited by PG&E are: (1) that actual year 1977 would have greater than normal hydroelectric output, (2) that PG&E would be able to begin commercial operation of its Diablo Canyon Unit No. 1 nuclear generating unit by mid-1977, and (3) that there would be no additional increases in the prices which PG&E must pay for fossil fuels. The first two conditions for stabilizing the ECAC rate level have neither occurred nor is there a reasonable expectation that they will occur.

While fossil fuel prices have remained relatively stable, the other two conditions have not occurred. Due to the continuing drought, current hydroelectric output in California and in the Northwest is significantly less than average. Furthermore, Diablo Canyon Unit No. 1 is not expected to be operational in 1977. Both of these conditions cause PG&E to use large additional quantities of expensive fossil fuels in order to meet customer demands for electric energy.

The necessity to substitute expensive fossil fuel generation for hydroelectric and nuclear generation has caused the balance in the Energy Cost Adjustment Account to increase at a rapid rate. During the period September 30, 1976 to January 31, 1977 this balance rose from \$133,313,169.43 to \$291,522,382.88, an increase of \$158,209,213.45 reflecting PG&E's actual cost of energy not recovered in rates. Under continued dry year conditions, PG&E expects the balancing account to reach approximately \$340,000,000 by July 1, 1977, the date of the next regular revision under the ECAC, even with the relief sought herein. PG&E states that this large outstanding balancing account creates severe cash-flow problems.

It is PG&E's position that, by authorizing the requested relief, the Commission would insure that during this period of energy shortages PG&E's customers would receive timely and appropriate conservation price signals. Granting of this request would result in prices more reflective of the true costs of providing electric energy and would discourage wasteful consumption patterns.

PG&E states that denial of this request would only delay the necessary revenue increases until the regular July 1, 1977 ECAC revision date. At that time PG&E's customers would face a massive increase in their rates. PG&E's proposal offers a more gradual and less disruptive increase in the ECAC rates.

PG&E brings out that by granting PG&E's requested relief during the period from April 1, 1977 through December 31, 1977, the Commission would save the ratepayers approximately \$2,500,000 in interest expenses that would otherwise accrue in the balancing account to be flowed through to ratepayers.

In Decision No. 85731, which prescribed the current ECAC procedure, the Commission stated the belief that a six-month filing period appeared desirable. However, this Commission stated that after evaluating the performance of the new clause, it might amend this interval to accomplish more adequately the objectives of the new clause. The cost effects of the increased fossil fuel consumption being experienced by PG&E mandate approval of this ECAC filing at this time.

Greater Conservation Effort Required

This rate increase application is a direct result of the 1966-1967 drought in the Pacific Coast states. The shortfall in hydroelectric generation is sharply increasing the fuel cost per average kilowatt-hour on the PG&E system. Conservation of electricity is the only immediately effective weapon available to the public for combating skyrocketing rates during this grave emergency. This message must reach the public. Over and above accelerating and expanding its conservation programs, PG&E must intensify its efforts to educate the public as to the leverage that the drought is applying to electric rates. The Commission expects PG&E to undertake forthwith an aggressive publicity campaign directed toward mitigating through increased conservation the effects of the drought on electric rates.

Energy Cost Adjustment Rates

The proposed ECAC adjustment rate applicable to nonlifeline usage is attributable to the offset and balancing rates and to the adjustment for franchise requirements and uncollectible accounts expense as follows:

	<u>Offset Rate</u>	<u>Balancing Rate</u>	<u>Total Adjustment Rate</u>
	(Cents per Kilowatt-Hour)		
Present Rate			
Before Adj.	1.560	0.308	1.868
Adjustment	<u>0.009</u>	<u>0.003</u>	<u>0.012</u>
Total	1.569	0.311	1.880
Increase			
Before Adj.	0.192	0.366	0.558
Adjustment	<u>0.002</u>	<u>0.004</u>	<u>0.006</u>
Total	0.194	0.370	0.564
Proposed Rate			
Before Adj.	1.752	0.674	2.426
Adjustment	<u>0.011</u>	<u>0.007</u>	<u>0.018</u>
Total	1.763	0.681	2.444

The changes underlying the proposed offset rate were set forth in Decision No. 86826 and Application No. 56810 in the matter of the second ECAC adjustment to PG&E's electric rates which became effective January 5, 1977. The proposed change in the balancing rate is the result of an increase of \$158,209,000 in the balancing account from \$133,313,000 as of September 30, 1976 to \$291,522,000 as of January 31, 1977.

PG&E is placed on notice that the balancing account will be examined by Commission staff auditors in connection with the regular ECAC filing in April of this year. Adjustments to the balancing account for the period September 30, 1976 (the date of the last staff examination) to April 30, 1977 will be reflected in the development of the balancing rate for the next ECAC filing.

The estimated increases in California jurisdictional gross revenue for each class of service for the period April 1, 1977 to June 30, 1977 over revenues at present electric rates are as follows:

<u>Class</u>	<u>Increase</u>	
	<u>Amount</u>	<u>Percent</u>
Residential	\$13,102,000	8.2
Small Light and Power	5,713,000	10.6
Medium Light and Power	18,714,000	15.4
Large Light and Power	18,545,000	18.9
Agricultural	6,001,000	15.6
Street Lighting	592,000	8.9
Railway	360,000	21.3
Interdepartmental	192,000	15.5
Total Jurisdictional	\$63,219,000	13.2

The increase for residential use is proposed to be applied entirely to nonlifeline usage with the result that the average increase for nonlifeline residential usage is 16.1 percent. The increase for various residential monthly uses is as follows: (based on Zone 2 rates and the basic lifeline allowance of 240 kilowatt-hours)

<u>Monthly Usage</u>	<u>Monthly Bill</u>		<u>Increase</u>	
	<u>Present</u>	<u>Proposed</u>	<u>Amount</u>	<u>Percent</u>
240 kwhr	\$ 8.21	\$ 8.21	\$0.00	0.0
300 kwhr	10.53	10.87	0.34	3.2
500 kwhr	17.57	19.04	1.47	8.4
1,000 kwhr	35.17	39.45	4.28	12.2
1,500 kwhr	52.76	59.87	7.11	13.5

Findings

1. The increase in the offset rate component of the energy cost adjustment is equivalent to that found justified after hearing in Application No. 56810.

2. The proposed increase in the balancing rate component of the energy cost adjustment is solely attributable to increases, during the period September 30, 1976 to January 31, 1977, in the previously authorized Energy Cost Adjustment Account as computed in accordance with Commission ordered accounting procedures.

3. The proposed increase would amount to \$63,219,000, if effective for the full quarter, April 1, 1977 through June 30, 1977.

4. The present filing deviates from the normal ECAC procedure insofar as the interval between filings is three months rather than the usual six months; however, it is desirable to reflect a gradual increase in the ECAC rate to reflect the shortfall in hydroelectric generation and to produce a conservation price signal. The quarterly interval will result in rates which will more nearly reflect the true cost of providing electrical energy and which will discourage wasteful consumption patterns.

5. PG&E should be authorized to file and to place into effect at this time the proposed ECAC adjustment as set forth above.

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

7. The effective date of this order should be the date on which it is signed because there is an immediate need for rate relief. PG&E is now incurring the costs which are being offset by the rate increase authorized herein.

O R D E R

IT IS ORDERED that:

1. Pacific Gas and Electric Company is authorized to file and place into effect as of April 12, 1977 the proposed Energy Cost Adjustment Clause adjustment rate as set forth above for nonlifeline electric usage.

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2. No change is authorized in the energy cost adjustment rate for lifeline electric usage.

The effective date of this order is the date hereof.

Dated at San Francisco, California, this 12th
day of APRIL, 1977.

Robert B. Farnell
President
William J. L. L. L.
William J. L. L. L.
William J. L. L. L.
Commissioners