

Decision No. 87607

JUL 19 1977

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. 57228  
(Filed April 15, 1977)

Malcolm H. Furbush, Robert Ohlbach, and William H. Edwards, Attorneys at Law, for Pacific Gas and Electric Company, applicant.  
Sylvia M. Siegel, for herself, and TURN, protestant.  
Tom Knox, Attorney at Law, for California Retailers Association; Brobeck, Phleger & Harrison, by William H. Booth, Attorney at Law, for California Manufacturers Association; and Glen J. Sullivan, Attorney at Law, for California Farm Bureau Federation, interested parties.  
Radovan Z. Pinto, Attorney at Law, and Mahendra Jhala, 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 effective July 1, 1977 under the Energy Cost Adjustment Clause (ECAC) of its electric tariff. PG&E states that the proposed rates will increase its electric revenues about 12.9 percent or \$77.6 million for the three-month period beginning July 1, 1977 through September 30, 1977.

The ECAC adjustment PG&E proposes to implement on July 1, 1977 is designed to (1) offset PG&E's current energy costs as calculated under the ECAC procedure, (2) amortize the amount in the balancing account as of March 31, 1977, representing PG&E's actual energy costs which have not yet been recovered through the rates charged its

customers, and (3) increase the amount being subtracted from customer bills under the Fuel Collection Balance Adjustment (FCBA) to amortize such balance within the 36-month period mandated by Decision No. 85731.

PG&E avers that the record drought conditions in northern California and the Pacific Northwest have caused drastic changes in both the cost and mix of PG&E's energy sources for electric generation. PG&E's present ECAC rate, authorized in Decision No. 87196 dated April 12, 1977, is based on the twelve-month record period ending September 30, 1976, whereas the record period in this application encompasses the twelve months ending March 31, 1977. Because of the decline in hydroelectric generation and also the decreased natural gas supply, PG&E was required to burn 52 percent more fuel oil in the more current record period. Similarly, although PG&E's purchased power consumption remained approximately the same, the substitution of higher priced purchased power generated largely from fossil fuels for low cost Pacific Northwest hydroelectric caused PG&E's purchased power costs to increase by 70 percent.

As a result of these factors PG&E's actual fuel costs greatly exceeded revenues recovered under ECAC and increased PG&E's Energy Cost Adjustment Account from \$291,522,382 on January 31, 1977 to \$342,526,331 by March 31, 1977. PG&E states that the expeditious granting of the proposed rate relief will ensure that PG&E's customers receive timely and appropriate conservation price signals.

PG&E proposes to spread the requested increase to all classes of customers on a uniform cents per kwh basis with no increase to lifeline usage.

#### Background

On April 27, 1976, the Commission issued Decision No. 85731 in Case No. 9836, its investigation into fuel cost adjustment procedures ordering each respondent utility, including PG&E, to file and 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 filed in Advice Letter No. 536-E. This is the fourth application filed by PG&E under ECAC. The last ECAC filing in Application No. 57122 was authorized by Decision No. 87196 dated April 12, 1977 and deviated from the normal ECAC procedure in that PG&E was granted an energy cost adjustment three months after the previous ECAC revision. The Commission authorized this deviation to reflect a gradual increase in the ECAC rate and to produce a conservation price signal to PG&E's customers.

After proper notice, public hearings on this matter were held in San Francisco on June 9 and 10, 1977 before Administrative Law Judge Kenji Tomita.

#### The Issues

The issues presented by this application are as follows:

1. Is the ECAC calculation developed by PG&E reasonable?
2. Should PG&E be authorized to file an additional ECAC to become effective October 1, 1977?
3. Should the increase be spread to lifeline sales as well as all other sales?
4. What rate design should the Commission adopt in this offset proceeding?

#### Commission Staff Position

The Commission staff reviewed applicant's records and work papers and took no exceptions to the ECAC calculations of applicant, except for some minor items which can be corrected in a subsequent filing, and recommended that PG&E be granted 100 percent of the requested amount. The staff rate design witness recommended that the ECAC rate increase be spread to nonlifeline users in the same manner proposed by PG&E. He further offered alternative rate

structures should the Commission feel compelled to adopt a truly inverted rate structure at this time. Upon questioning by Commissioner Sturgeon the witness further testified that since average system rates exceeded lifeline rates by well over 25 percent it was his personal opinion that the rate increase should be spread to all sales on a uniform cents-per-kwh basis including lifeline, but he did not make the recommendation in this filing because the Commission had not adopted his recommendation in the past. The witness felt that the issue was a policy matter involving social and political considerations. The staff also opposed the granting of PG&E's request to file for another ECAC revision effective October 1, 1977.

Position of Other Parties

California Manufacturers Association (CMA) presented two in support of its recommendation that this ECAC increase should be spread to all classes of service on a uniform cents-per-Mcf. Conrad C. Jamison, vice president and economist for Security Pacific National Bank, introduced an exhibit titled "Unemployment Implications of 'Zero Economic Growth' in California" and testified how action by this Commission in gas and electric rate proceedings could adversely influence the level of economic activity within the state and also of the need for continued growth in California's economy to provide new jobs every year.

Robert E. Burt, Director of Energy & Environmental Quality for CMA, was the second witness. He testified against adoption of PG&E's proposed rate spread and strongly recommended that the exclusion of lifeline sales in spreading the revenue increase be abandoned and that the Commission once again resort to its prior practice of spreading energy cost adjustment increases on a uniform cents-per-kwh basis. He further testified that protecting the customers from the real cost of energy fails to give them an accurate price signal of the cost of the energy they are consuming. He believed that this was critically important at a time when the

Commission, the Legislature, and the Federal Government are all preaching conservation and the need to develop alternate energy sources. As a second alternate rate structure CMA recommended that the revenue requirement be spread on a uniform cents-per-kwh basis initially to all sales and that the revenue requirement for the residential class be distributed in any manner that the Commission desires. The Commission could spread more of the increase to lifeline sales and obtain the needed revenues from the remaining residential sales or spread one half of the uniform increase to lifeline sales with the balance being absorbed by nonlifeline residential sales.

The California Retailers Association and the California Farm Bureau Federation both raised similar objections to PG&E's proposed rate design and supported CMA's proposal to spread the increase to all sales on a uniform cents-per-kwh basis. They offered no objections to the proposal that once the revenues are spread to the various classes on a uniform cents-per-sale basis that increases within the residential class be spread in any manner the Commission believes is appropriate to encourage conservation or to protect lifeline users.

Sylvia Siegel appearing for herself and TURN objected to the fact that each customer was not notified of the hearing by a bill stuffer, questioned the lawfulness of this proceeding since it represents a quarterly adjustment, and criticized the staff for not delving into the reasonableness of the prices paid by PG&E for energy. The staff did indicate that pricing would be handled in the next filing. On the question of rate design, TURN's representative criticized the lack of a cohesive study by the Commission on this matter. For this proceeding TURN therefore recommended that no increase be spread to lifeline volumes and also supported inverted rates for residential nonlifeline sales. TURN strongly objected to PG&E's request for another ECAC adjustment in October.

Discussion

There was no serious dispute about the costs and volumes used by PG&E in developing its ECAC factor. We will therefore consider PG&E's calculations relating to the Offset Rate, Balancing Rate, and Fuel Collection Balance Adjustment to be reasonable and not an issue in this proceeding. We do expect the staff to make a full study on the prudence and reasonableness of PG&E's purchase of fuel and energy for use in the next ECAC proceeding.

On the issue of PG&E's request to file an additional ECAC to become effective on October 1, 1977, the request was opposed by the Farm Bureau, TURN, and the Commission staff. PG&E contends that the unprecedented drought conditions, the record balances in the balancing account which create severe cash flow problems for applicant, and also the importance of giving its customers timely and appropriate conservation signals are all special conditions justifying another quarterly filing for October 1, 1977. While the Commission will not order PG&E to file an October 1, 1977 ECAC revision, the Commission will state that it is aware of the havoc the extreme drought conditions have placed on our utilities and will entertain another special filing effective October 1, 1977 should conditions not improve and the company feels that such filing is necessary.

The question of rate design was the main issue in this proceeding. The record shows that if PG&E's proposals are adopted, the ECAC rate applicable to nonlifeline sales will increase by 0.620¢ from 2.444¢ per kwh to 3.064¢ per kwh so that the ECAC rate for nonlifeline sales will exceed the lifeline rate. Several of the parties relied on this circumstance as the basis for supporting an increase in lifeline rates. We have considered the evidence and the various contentions and have decided to adopt staff's proposal identified as "A".

We are approaching the critical days of this difficult year. The hot days of summer present a clear and present risk of an electrical shortage and resulting brown-outs. We find it imperative in this situation to continue to promote conservation among residential customers by the simple device of not increasing rates for the minimal usage identified by lifeline. We caution all concerned that the rate design imposed by these extraordinary ECAC increases is temporary and does not bind this Commission in future proceedings.

The remaining issue is the matter of the rate spread among residential customers. We have determined to proceed as we did in D.87429, increasing Southern California Edison Company's rates by other than uniform cents per kilowatt hour. The staff's proposal "A" eliminates a "hump" in the rate design (from 240 to 300/kwhr) in a manner that is consistent with our general rate design philosophy.

Table 1 shows the estimated increases in California jurisdictional gross revenue for each class of service for the period July 1, 1977 to September 30, 1977 over revenues at present rates.

TABLE 1

<u>Class</u>	<u>Increase</u>	
	<u>Amount</u>	<u>Percent</u>
Residential	\$13,915,000	8.3%
Small Light and Power	7,294,000	10.5
Medium Light and Power	20,560,000	14.6
Large Light and Power	21,770,000	17.4
Agricultural	12,811,000	14.7
Street Lighting	695,000	8.9
Railway	388,000	19.2
Interdepartmental	215,000	14.6
Total	<u>\$77,648,000</u>	<u>12.9%</u>

Table 2 shows a comparison of bills at various monthly usage for Zone 2 rates and the basic lifeline allowance of 240 kwh.

TABLE 2

<u>Monthly Usage</u>	<u>Monthly Bill</u>		<u>Increase</u>	
	<u>Present</u>	<u>Proposed</u>	<u>Amount</u>	<u>Percent</u>
240 kwh	\$ 8.21	\$ 8.20	\$(0.01)	(0.12)%
300 "	10.87	10.86	(0.01)	(.09)
500 "	19.04	20.47	1.43	7.51
1,000 "	39.45	44.49	5.04	12.78
1,500 "	59.87	68.51	8.64	14.43



Findings

1. PG&E's calculation of current cost of fuel and purchased energy as well as the revised offset rate is reasonable.
2. PG&E's calculation of the revised balancing rate is reasonable.
3. PG&E's proposed revision of its Fuel Collection Balance Adjustment amortization rate to .047% per kwh is reasonable.
4. The proposed increase would amount to an increase of \$77.6 million or a 12.9 percent increase for the three-month period beginning July 1, 1977 through September 30, 1977.
5. Although average system rates have exceeded January 1, 1976 lifeline rates by more than 25 percent, it will be reasonable not to increase lifeline rates in this proceeding.
6. The unprecedented drought conditions in northern California and the Pacific Northwest have caused drastic changes in PG&E's energy mix and costs as well as a continuing buildup in its ECAC balancing account, necessitating this ECAC revision.
7. Staff's proposed scheme "A" is a reasonable treatment of the spread of the increase to nonlifeline sales.
8. 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.

Conclusions

1. PG&E should be authorized to file and to place into effect the authorized ECAC revision set forth above.
2. The effective date of this order should be the date hereof because there is an immediate need for rate relief.

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 July 19, 1977 the ECAC revision set forth in Exhibit B to the application.

2. No increase is authorized for lifeline usage.

3. Pacific Gas and Electric Company is authorized to file a Fuel Collection Balance Adjustment rate of minus 0.047¢ per kwh.

The effective date of this order is the date hereof.

Dated at San Francisco, California, this 19<sup>th</sup> day of JULY, 1977.

*I will dissent  
William Surows Jr.*

*Robert Bateman*  
President

*Vernon L. Sturgeon*  
*Richard D. Small*  
*Clair D. Dehrie*  
Commissioners

*I concur in part  
and dissent in part  
I dissent only to the  
rate spread which  
bears no relation to  
the cost of providing  
the service*

*Vernon L. Sturgeon*

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PACIFIC GAS & ELECTRIC COMPANY:  
RATE INCREASE UNDER ENERGY COST ADJUSTMENT CLAUSE

COMMISSIONER WILLIAM SYMONS, JR., Dissenting

"California Means Business" read the new buttons that top officials sport in Sacramento. However, this button is contradicted daily by the decisions that State Government issues.

Today's order is a glaring example. This giant PG&E rate increase is dumped disproportionately and destructively on the productive sectors of our state's economy -- business, industry and agriculture. It follows a pattern of rate punishment begun 2½ years ago which continues unabated despite the new winds of rhetoric. One wonders how far the policy can be pushed before the roof caves in. Such ill-considered government policy will drive business and jobs out of California needlessly and foolishly.

Today's increase is of major proportions: on an annual basis it constitutes an increase of \$310.4 million. The continuing drought has forced PG&E to substitute expensive fuel oil for hydro-generation of electricity. The cost impact requires that system revenues must be increased 12.9%.

How to raise such an immense sum of money? There is the crunch. I support the recommended opinion of the Administrative Law Judge as balanced and realistic. As presented, all customers would shoulder an equal proportion of this burden. The required revenue would be raised by a uniform increase in rates of \$0.0052 per kilowatt hour sold. This is an equitable solution with each customer sharing a part of the very real energy cost increases which the utility serving them is currently experiencing. It also prevents PG&E's electric rate structure from growing further out of whack.

Run-away Lifeline? Last January the Commission recognized that in the PG&E system, the subsidy-creating provisions of the Miller-Warren Lifeline Act had been exceeded (Decision No. 86286, January 5, 1977). In that decision we notified all parties that in the June 1977 ECAC case we would address the question of what to do with additional rate increases, now that the act no longer prohibited increases to lifeline usages. (Public Utilities Code Section 739 required that the Commission designate a minimum use quantity of electricity, and that the price of that electricity not rise until the average system charges had risen 25% over January 1, 1976 levels. That threshold was reached in January of 1977.)

The hard policy question of 'what to do next' should have been faced in the special PG&E ECAC application of April 1977. Yet, a solution was put off and the worsening problem was left hanging. Decision No. 87196 on April 12, 1977 approved a \$51 million increase, but lifeline rates did not increase. The full brunt of the increase was again shifted to non-lifeline sales. The statutory threshold of 25% was greatly exceeded with the average system increase rising to a full 50% with no change in prices to that initial use sales. The uncollected millions were imposed upon all other sales. Their prices rose much more steeply than necessary.

The thorny problem of "what to do next" passed on until this case. Would the harm be halted or would the Commission majority look the other way again?

The issue was fully addressed in the proceedings with Toward Utility Rate Normalization arguing for no increases to initial use domestic sales. The California Manufacturers' Association, the California Retailer's Association and the California Farm Bureau argued strongly that all sales and all classes bear a fair share of the increase in prices.

Outrageously, once again, the Commission majority fails to do anything about this depressing problem. Today, even though average system rates have risen 69% over the January 1, 1976 level, they exempt initial use domestic sales from any share of the increase.

Conservation? Even the "motherhood" issue of conservation cannot be used to justify this continued joy ride of no increases to initial domestic class sales. Because all residential customers receive this mushrooming subsidy on their initial electric usage, the rate structure requires total domestic usage of 1,343 Kh/mo before the bills to residential users cease to be subsidized.

This is an extremely high usage level: 99.5% of residential users do not even reach this break-even point. In an era of energy shortages, to perpetuate and accelerate such a result is inexplicable. From a conservation point of view, to send such an inaccurate pricing signal to domestic users who, as a class, have the greatest potential for elimination of wasteful use, is folly.

This is a critically important time. The Commission, the Legislature and the Federal government are all seeking to encourage residential customers to better insulate their homes, to purchase more efficient appliances and perhaps to purchase solar equipment.

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If the price of electricity which residential customers purchase is artificially low they will not have the full monetary incentive which they would otherwise have to make the investment necessary to save energy.

Damaging Shift? Since these sales constitute 50% of the domestic sales, the impact of this decision is dramatic. Instead of domestic sales contributing a proportional \$23.3 million in revenues, they contribute only \$13.9 million. This is an under-collection of \$9.4 million or 43% less than full share.

To overcome the deficit, the rates to other customers are jacked up. For example, the increases to large light and power rise from \$17.9 million to \$21.8 million. This is an extra hike of \$3.9 million or 22%. The system average increase remains 12.9% under the majority formula, but the design's disproportionate impact is apparent. Compare the residential class increase of 8.3% to large light and power class increase of 17.4%. The industrial class is assigned over double the rate increase of the residential class! Likewise, extra burdens are felt by other classes such as agriculture, whose prices rise \$12.8 million instead of \$10.7 million. This is an extra differential of 21%.

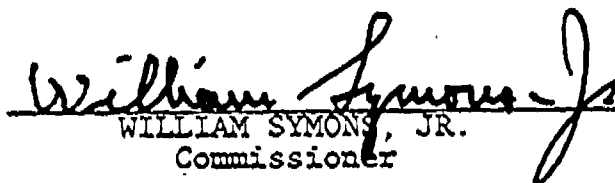
Already swollen subsidies are thus enlarged again. The cumulative effect has been staggering upon the businesses in this state. The Legislature is concerned as to the affect the Commission's rate decisions are having upon the economic health of the state. (House Resolution No. 123; Senate Concurrent Resolution No. 113 August 30, 1976). And rightfully, they should be concerned.

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Consider the case of a Contra Costa County refinery which came to our attention. It uses approximately 33 million KWH's a month. In September 1975, the firm's electric bill stood at \$244,545. Less than 2½ years later for the same quantity of electricity under the majority's rate design the company will pay \$1,347,691!

If "California means business", today's PUC majority had best think long and hard about those figures.

San Francisco, California  
July 19, 1977

  
WILLIAM SYMONS, JR.  
Commissioner