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Decision No. 88262 DEC 20 1977

ORIGINAL

BEFORE THE PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

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| Application of Pacific Gas and Electric Company for authority to implement a plan to stabilize electric rates and charges. (Electric) | Application No. 57556 (Filed September 7, 1977) |
| 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. 57642 (Filed October 20, 1977) |
| Application of Pacific Gas and Electric Company for authority, among other things, to increase its rates and charges for electric service. (Electric) | Application No. 57284 (Filed May 5, 1977) |

Malcolm H. Furbush, Robert Ohlbach, and William H. Edwards, Attorneys at Law, for Pacific Gas and Electric Company, applicant.
David Gray Tishman, Attorney at Law, and Sylvia Siegel, for TURN, protestant.
Gordon E. Davis, William H. Booth, and James M. Addams, Attorneys at Law, for California Manufacturers Association; Leonard L. Snaider, Attorney at Law, for Thomas M. O'Connor, City Attorney, City and County of San Francisco; David Roe, Attorney at Law, for Environmental Defense Fund; Glen J. Sullivan, Attorney at Law, for California Farm Bureau Federation; William L. Knecht, Attorney at Law, for California Association of Utility Shareholders; Boris H. Lakusta, David J. Marchant, and Jerry J. Suich, Attorneys at Law, for California Hotel & Motel Association and Western Mobilehome Association; Tom Knox, Attorney at Law, for California Retailers Association; and Al Wagner, Attorney at Law, for University of California; interested parties.
Timothy E. Treacy and James S. Rood, Attorneys at Law, and Martin Abramson, for the Commission staff.

## O P I N I O N

By this application, Pacific Gas and Electric Company (PG&E) requests authority to implement a plan to stabilize electric rates and charges. Under its proposed plan, PG&E would (1) forego an Energy Cost Adjustment Clause (ECAC) increase in electric rates which otherwise should be effective January 1, 1978[1/] and (2) receive a partial electric general rate increase of $89,340,000 effective January 1, 1978, in Application No. 57284,[2/] which would be entirely offset by a concurrent premature reduction in ECAC rates based upon anticipated future reductions in ECAC rates. PG&E further proposes that any electric rate increase authorized by the Commission in amended Application No. 56845[3/] for supplemental conservation programs also be offset by an additional premature reduction in ECAC rates.

The net effect of this plan, according to PG&E, would be to hold electric rates at existing levels. PG&E claims that although it will suffer reduced cash flow not only by foregoing ECAC increases but also by prematurely reducing ECAC rates, the partial general rate increases will enable it during 1978 to earn a return on equity closer to the 12.83 percent that the Commission last found fair and reasonable. (Interim Decision No. 86281 dated August 24, 1976 in Application No. 55509.) On October 21, 1977, Towards Utility Rate Normalization (TURN) filed a "Motion To Dismiss".[4/]

After due notice, hearing was held at San Francisco before Administrative Law Judge Gillanders on November 1, 2, 3, and 4, 1977. The matter was submitted on November 4 at the conclusion of oral argument.

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1/ On October 20, 1977 PG&E filed Application No. 57642 requesting authority to increase its electric rates and charges in accordance with the ECAC included in its electric tariff.

2/ Filed September 25, 1977.

3/ Now under submission.

4/ The motion was denied by the Commission on November 1, 1977.

Testimony was presented by PG&E's vice president rates and valuation and the assistant manager of its Economics and Statistics Department. The staff showing was made by a registered professional engineer and two accountants. Testimony and exhibits were presented by one witness on behalf of the California Association of Utility Shareholders and by two witnesses on behalf of the California Manufacturers Association (CMA). On November 3, 1977 TURN filed a petition for a proposed report. The petition is hereby denied.

## Position of Parties at Submission

### PG&E

PG&E's position is that its electric rate stabilization plan should be adopted, and that the partial electric rate increase portion of it should be based on the rate of return on common equity of 12.83 percent last found fair and reasonable.

Under PG&E's plan, the balancing account feature of the ECAC would continue to be operative, as provided for in its tariff; balances in that account would continue to accrue interest at the rate of 7 percent; and the ECAC procedure would also continue to be operative.

PG&E would make normal filings and if ECAC reductions are called for, they would be made if so ordered by the Commission.

PG&E obviously cannot guarantee that there will be absolute rate stability. As was pointed out in its testimony, PG&E cannot guarantee what OPEC or the Canadian Government or any other agencies who can affect the prices of fossil fuels will do. If there were significant increases in fossil fuel prices, that would have to be taken into account, but PG&E is optimistic and certainly hopeful that the rate stabilization plan will work as intended and that there will not be a need for requests for increased revenues, and indeed, it is hopeful that under ECAC there will be, even with the plan, rate reductions in 1979.

Commission Staff

The staff urges adoption of PG&E's plan based on its results of operations shown in Table 14-A of Exhibit 4 at 9.2 percent rate of return and subject to certain conditions. Its primary recommendation was that for the 18- to 24-ensuing-month period all appropriate increases in the base rates should be offset by comparable dollar decreases in the ECAC rates. The staff also recommended that a refund procedure be established in the event that the final decision in Application No. 57824 authorizes less of an increase. ✓

The staff feels that with the qualifications and conditions it has recommended the plan will serve the best interests of the ratepayers by assuring them of some level of stability.

TURN

According to TURN the record of this case supports its arguments that the rate stabilization plan is unreasonable, illegal, and unconstitutional.

TURN is concerned about the dangerous precedent of utilizing reductions in ECAC rates to raise general rates.

It is also concerned with the proposal that any excess in the ECAC decrease goes to finance proposed supplemental conservation programs because, in the future, ECAC decreases could be used to finance any number of projects to avoid lowering rates.

Further, TURN questions an alleged agreement between the Commission and the utility, to forego an ECAC increase in return for a general rate increase.

TURN also feels that the net effect of this plan is a rate increase without proper justification.

TURN is more concerned with lower rates over the coming year that stabilization of rates at a higher level. It would prefer the projected ECAC increase on January 1, 1978, and the larger decrease on July 1, 1978, to the rate stabilization plan.

California Manufacturers Association (CMA)

CMA is opposed to the plan as submitted by PG&E. It contends that there has been no need demonstrated for the partial general rate increase. It also opposes the trade-off between ECAC rates and general rates.

CMA would like the Commission to reduce present ECAC levels on January 1, 1978, and attempt as best it can to stablize rates throughout 1978 and 1979 utilizing the expected ECAC reductions in 1978 and 1979.

CMA's participation in rate proceedings before the Commission has generally been involved with the area of rate design. It only occasionally becomes involved in revenue requirements or rate of return issues. Its view has been that these areas are well taken care of by the staff of the Commission.

In this proceeding it has taken issue with the staff's position and it feels that the staff's approval of the plan, even with the conditions that it proposes, is not in the public interest.

CMA feels that the plan amounts to a freezing at present extraordinarily high levels of PG&E's rates when, in fact, the Commission in the public interest should do everything in its power to moderate those rates caused by a natural disaster, the drought of the last two years.

CMA suggests that staff fails to fully appreciate the cost of the plan or is unable to see other methods of stabilizing the rates. It contends that the staff is placing too large a premium on stabilization.

The important thing in CMA's view is that today's rates are extraordinarily high, reflective of the drought situation of the last two years.

CMA feels that the Commission should attempt to mitigate the effects of the drought by either maintaining the present ECAC level or, if possible, beginning a moderate reduction on January 1, 1978.

<u>City and County of San Francisco (San Francisco)</u>

San Francisco is opposed to any partial general rate increase either standing alone or as part of a so-called rate stabilization plan. It does not think there is any real value to stabilization.

<u>California Retailers Association (CRA)</u>

CRA is opposed to this application. It contends that the record does not support the proposed increase.

<u>California Farm Bureau Federation (Farm Bureau)</u>

The Farm Bureau would like to see no partial general rate increase granted at this time. Rather, it thinks PG&E should wait until day 225, counting from September 25, 1977, at which time the case will probably be submitted in order for consideration of a partial or interim increase.

In addition, the Farm Bureau would like to see PG&E omit its January 1, 1978 ECAC filing and wait until July of 1978 to make an ECAC adjustment based on the regular calculation of the mechanism.

However, unique circumstances require unique solutions adaptable to like extraordinary situations only and not to be regarded as precedent for other interim relief requests.

There are two major reasons why the public interest will be served best by the granting of this application as recommended by our staff on the record.

1. Electric rates will be stabilized for not less than two years. This means that the large ECAC relief to which PG&E is entitled on January 1, 1978 will not be granted. (This is in addition to other ECAC relief due PG&E which has been deferred earlier.)

2. The granting of interim rate relief at the outset of 1978 helps get PG&E on track as the first major utility to be subject to our new regulatory lag reform plan adopted last July. The thrust of this plan is to grant appropriate rate increases, when warranted, at the beginning of the test year upon which the rates are based. (In this case, the test year is 1978.) This creates salutary effects: increasing cash flow, lowering total interest costs, potentially increasing stock prices, and reducing the frequency of general rate cases while allowing the utility a reasonable opportunity to earn its authorized rate of return.

On balance, we believe this provides more than ample justification for this novel plan.

There still remains to be decided the basis upon which interim relief will be granted. The last PG&E general rate case was based on a 1976 test year and authorized a 9.2 percent rate of return and a 12.83 percent return on equity. The staff here has recommended setting permanent rates for the 1978 test year of 9.5 percent, but recommends maintaining the presently authorized 9.2 percent rate of return if the Commission authorizes the requested plan, while acknowledging that the 9.2 percent reduces the presently authorized 12.83 percent return on equity to about 12 percent, while the 9.5 percent should keep the return on equity at about the presently authorized level. We have in the past stressed the significance of the rate of return based on rate base. A closer analysis indicates that this figure is basically derived from the cost of capital required by the utility. Since the cost of debt and preferred stock is fixed and non-judgmental, the cost of equity capital (the return on equity) is the determination we are required to make which requires the most subjective and judgmental evaluation. From this, we arithmetically determine the rate of return on rate base. Thus, it is clear that the return on equity is the major determinant of the just and reasonable rates we are required to produce. Since the last authorized return on equity will be essentially maintained by the staff's permanent recommendation of 9.5 percent return on rate base, and since we are desirous of maintaining the status quo regarding the return on equity, we shall adopt the 9.5 percent rate of return to produce that stabilization as part of the entire interim rate stabilization we are adopting in this decision. Of course, these rates are subject to refund and reduction depending on the result in all pending matters.

The adoption of this plan continues to require PG&E to pursue a vigorous, innovative, and exemplary conservation effort and program for test year 1978 and beyond. We intend to monitor their conservation efforts closely and to appropriately reduce the authorized rate of return where we find the effort or the programs do not meet our expectations.

After the conclusion of the hearings, a further review of PG&E's documentation supporting this plan indicated that both PG&E and our staff had inadvertently included as an expense item 1977-1978 property taxes of $9,015,000 for the non-functioning Diablo Canyon nuclear power plant. We take official notice of this item. Since this plant is not included in rate base because it is considered construction work in progress (CWIP), the taxes should not have been allowed as an expense item, as they are also considered a part of CWIP. Accordingly, we shall reduce the herein authorized amount by $9,015,000. However, when this plant becomes operative, we shall place it and all appropriate associated expenses in rate base upon application by PG&E.

Findings

1. The continuing drought has resulted in substantial rate increases for PG&E.

2. PG&E is entitled to yet another substantial increase in its ECAC factor in January 1978.

3. It is foreseeable that PG&E's ECAC rate would be reduced later in 1978 even if the drought continues.

4. It is foreseeable that PG&E will be granted a substantial rate increase in 1978 in Application No. 57284.

5. It is in the public interest to avoid the swings in electric rates that would result from the independent operation of these ratemaking mechanisms.

6. PG&E's last authorized rate of return of 9.2 percent included a 12.83 percent return on equity.

7. A 9.5 percent rate of return is necessary to maintain a 12.83 percent return on equity for a 1978 test year.

8. It is reasonable to make the partial general rate increase authorized hereby subject to refund and reduction pending the outcome of Application No. 57284 and the second phase of Applications Nos. 55909 and 55910.

9. Partial general rate relief in the amount of $71,178,000 is reasonable to stabilize rates and to allow PG&E the opportunity to earn its authorized rate of return.

10. $9,015,000 for 1977-1978 property taxes for the Diablo Canyon nuclear power plant were inadvertently included as an expense item item and should not be allowed in this proceeding.

Conclusions

1. A 9.5 percent rate of return is reasonable for PG&E pending the outcome of Application No. 57284 and the second phase of Applications Nos. 55909 and 55910.

2. PG&E's application for stabilization of electric rates should be granted to the extent set forth in the following order.

O R D E R

IT IS ORDERED that:

1. Application No. 57556 is granted on the basis of the results of operation shown in Table 14-A of Exhibit 4 at a 9.5 percent rate of return. The amount thus authorized is $71,178,000 as a partial rate increase in Application No. 57284.

2. For the 24-month period beginning January 1, 1978 all appropriate increases in base rates shall be offset by comparable dollar decreases in the Energy Cost Adjustment Clause (ECAC) rates and all appropriate reductions in rates shall be made.

3. The monies collected in accordance with this order shall be subject to refund if found to be excessive by the final order in Application No. 57284.

4. Pacific Gas and Electric Company (PG&E) shall maintain memorandum records to track the monthly increase in base revenue rates under the rate stabilization plan.

5. PG&E shall apply any overcollection at a seven percent per annum interest rate against the ECAC balancing account.

6. After the effective date of this order, PG&E is authorized to file the appropriate changes in base rates and ECAC rates as set forth in Appendix A attached to this order. Such filing shall comply with General Order No. 96-A. The effective date of the revised schedules shall apply only to service rendered on and after the effective date thereof.

7. Application No. 57642 is dismissed.

The effective date of this order is the date hereof.

Dated at San Francisco, California, this 20th day of DECEMBER, 1977.

I will file a dissent.
William Symons Jr

Robert Batinovich
President

Vernon L. Sturgeon
Richard D. Gravelle
Commissioners

I will file a concurrence
Robert Batinovich

Commissioner Claire T. Dedrick, being necessarily absent, did not participate in the disposition of this proceeding.

PACIFIC GAS AND ELECTRIC COMPANY

SUMMARY OF RATES

1. ECAC Adjustment Rates, in cents per kilowatt-hour, are changed as follows, except that the Lifeline Residential Rate and the Non-Lifeline Residential Initial Block Rate of 1.003 and 2.444 cents per kilowatt-hour, respectively, are unaffected:

| | Offset Rate | Balancing Rate | Total Adjustment Rate |
|---|---|---|---|
| | (Cents per Kilowatt-hour) | | |
| **Non-Lifeline Residential Excess Block Rates** | | | |
| Present Rate | | | |
| Before Adj. | 2.351 | 0.794 | 3.145 |
| Adjustment* | 0.017 | 0.008 | 0.025 |
| Total | 2.368 | 0.802 | 3.170 |
| Decrease | | | |
| Before Adj. | 0.210 | 0.037 | 0.247 |
| Adjustment* | 0.002 | - | 0.002 |
| Total | 0.212 | 0.037 | 0.249 |
| Proposed January 1 ECAC Rate | | | |
| Before Adj. | 2.164 | 0.757 | 2.921 |
| Adjustment* | 0.015 | 0.008 | 0.023 |
| Total | 2.179 | 0.765 | 2.944 |
| **Non-Residential Rates** | | | |
| Present Rate | | | |
| Before Adj. | 2.264 | 0.776 | 3.040 |
| Adjustment* | 0.016 | 0.008 | 0.024 |
| Total | 2.280 | 0.784 | 3.064 |
| Decrease | | | |
| Before Adj. | 0.123 | 0.019 | 0.142 |
| Adjustment* | 0.001 | - | 0.001 |
| Total | 0.124 | 0.019 | 0.143 |
| Proposed January 1 ECAC Rate | | | |
| Before Adj. | 2.141 | 0.757 | 2.898 |
| Adjustment* | 0.015 | 0.008 | 0.023 |
| Total | 2.156 | 0.765 | 2.921 |

* For franchise and uncollectibles

PACIFIC GAS AND ELECTRIC COMPANY

SUMMARY OF RATES (Continued)

2. To implement the above changes with respect to Schedules Nos. LS-1, LS-2, LS-60, LS-61, and OL-1, the ECAC Adjustment Rates per lamp per month on those schedules would be decreased by those amounts necessary to reflect the Non-Residential Adjustment Rate set forth above.

3. To transfer the above reductions in ECAC Adjustment Rates to Base Rates, add 0.249 cents per kilowatt-hour to all Non-Lifeline Residential Excess Block Base Rates and 0.143 cents per kilowatt-hour to all Non-Residential Rates for service to which an ECAC Adjustment Rate is applicable.

4. To implement the above transfer with respect to Schedules Nos. LS-1, LS-2, LS-60, LS-61, and OL-1, increase the Base Rates by an amount equal to the reductions in paragraph 2 above.

5. To implement the above transfer with respect to rate schedules and contracts which provide for power factor or delivery voltage adjustments based on a percentage of the bill at Base Rates, but which adjustments are not applicable to the ECAC component of the bill, an adjustment to the transferred rate would be made as set forth below:

| | Reduction in ECAC Adjustment Rate | Increase in Base Rate |
|---|---|---|
| Schedule No. A-12 | 0.143 cents/kwhr | 0.143 cents/kwhr |
| Schedule No. A-13 | " " | " " |
| Schedule No. A-17 | " " | 0.144 " |
| Schedule No. A-18 | " " | 0.145 " |
| Special Contracts | " " | 0.143 cents per/kwhr divided by one minus the per unit power factor discount averaged over the twelve consecutive monthly billings ending September, 1977. |

PACIFIC GAS AND ELECTRIC COMPANY

CALCULATION OF RATES

| Line No. | | | |
|---|---|---|---|
| 1 | Amount of decrease in annual ECAC revenue and increase in Base Rate revenue | | $71,178,000 |
| | Reduce Non-Lifeline Residential Excess Block Rate to system non-lifeline level: | | |
| 2 | Present Rate | $.03170/Kwhr | |
| 3 | System Rate | -.03064 | |
| 4 | Decrease | $.00106/Kwhr | |
| 5 | X Sales in block | X7,738,000 Mwhr | |
| 6 | | | $ 8,202,000 |
| 7 | Remainder of ECAC revenue decrease: | | $62,976,000 |
| | System Sales subject to ECAC changes: | | |
| 8 | Total CPUC Jurisdictional Sales | 56,488,000 Mwhr | |
| 9 | Less: Total Residential | 18,358,000 | |
| 10 | Sales to DWR | 1,953,000 | |
| 11 | Plus: Non-Lifeline Residential Excess Block | 7,738,000 | |
| 12 | Total Sales Subject | 43,915,000 Mwhr | |
| 13 | Remainder of ECAC revenue decrease, per Kwhr | | $0.00143 /Kwhr |
| 14 | Reduction in ECAC rate and increase in Base Rate applicable to Non-Residential Sales subject to ECAC: | | $0.00143 /Kwhr |
| | Reduction in ECAC rate and increase in Base Rate applicable to Non-Lifeline Residential Excess Blocks: | | |
| 15 | From Line 13: | $0.00143/kwhr | |
| 16 | From Line 4: | +0.00106 | |
| 17 | | | $0.00249/kwhr |

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ROBERT BATINOVICH, Commissioner, Concurring:

I am disturbed by the apparent lack of rationale underlying the opposition to the increase in rate of return from 9.2 percent to 9.5 percent. It is unprecedented. But it is the logical result.

The 9.5 percent is required to maintain the last authorized 12.83 percent return on equity. Maintaining 9.2 percent in the face of increased interest charges renders that return on equity unreachable. Would these same parties recommend maintaining 9.2 percent if the interest costs had gone down, resulting in the return on equity being higher than last authorized? Return on equity, rather than rate of return, is the number that should control these deliberations.

These parties apparently support the recovery by PG&E of some or all of its increased expenses except the cost of capital. On what basis? Is there a presumption that PG&E has imprudently issued securities or that the costs have been unreasonable? Ironically, this Commission approves every security offering, so that logically capital costs should be the first to be recovered, rather than last, in a partial general rate increase.

Robert Batinovich
ROBERT BATINOVICH, President

San Francisco, California
December 20, 1977

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A. 57556 - D.
PG&E Base Rate Increase, ECAC Reduction: Rate Stabilization

COMMISSIONER WILLIAM SYMONS, JR., Dissenting

Rate Increase

There should be no mistake: while there will be no changes in total level of electric rates, the component of the rate changes, and higher rates will be paid over a longer time, than without this order. This is clearly an increase in base rates of $71,178,000 annually.

No Showing

Public Utilities Code § 454(A) forbids a general rate increase absent a "showing". We have been presented with no evidence justifying a rate increase in this application. Examination of the findings in the majority's decision reveals this to be so.

Stabilization

What seems to have "done the trick" in producing such a major increase, is the mumbo jumbo about "stabilization". To keep rates from going up is quite popular. But "stabilization" cuts two ways. In the case before us, I foresee that it will have the effect of preventing rates from falling. I am unconvinced that "stabilization" is worth its price.

San Francisco, California
December 20, 1977

William Symons, Jr.
WILLIAM SYMONS, JR.
Commissioner