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Decision No. 89318 SEP 6 1978

ORIGINAL

BEFORE THE PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

Application of PACIFIC GAS AND ELECTRIC COMPANY for Authority to Reduce its Electric Rates and Charges under the Energy Cost Adjustment Clause Included in its Electric Tariff. (Electric)	Application No. 58033 (Filed April 28, 1978)

Malcolm H. Furbush, Robert Ohlbach, and Bernard Della Santa, Attorneys at Law, for Pacific Gas and Electric Company, applicant.
Robert E. Burt, for California Manufacturers Association; and Glen J. Sullivan, Attorney at Law, for California Farm Bureau Federation; interested parties.
Patrick Power, Attorney at Law, and Mahendra Jhala, P.E., for the Commission staff.

OPINION

By this application, Pacific Gas and Electric Company (PG&E) proposes to reduce, effective July 1, 1978, the adjustment rates under the Energy Cost Adjustment Clause (ECAC) by $0.00148 per kilowatt-hour for all nonlifeline residential initial block usage and by $0.00400 per kilowatt-hour for other nonlifeline usage. No reduction is proposed for lifeline usage, nor is any change in the Fuel Collection Balance Adjustment (FCBA) proposed. The resulting revenue reduction for the year beginning July 1, 1978, is estimated to be $178,929,000, or 7.4 percent below present rates.

According to PG&E, the rate reduction proposed in this application is based on the hydroelectric potential now available and expected to be available later this year on its system.

In addition, greater than normal precipitation in the Pacific Northwest is expected to provide additional hydro energy from that area.

These conditions would not otherwise be reflected in ECAC until January 1, 1979. As a matter of fact, according to PG&E a calculation of ECAC rates under the ECAC tariff based on a recorded period ending March 31, 1978 would yield a rate increase of approximately $20.2 million.

PG&E is proposing that rates be reduced now rather than in some future period in order to avoid radical fluctuations in ECAC rates.

After due notice hearing was held at San Francisco before Administrative Law Judge Gillanders on June 22 and 23, 1978. The matter was submitted on June 23 at the conclusion of oral argument.

Testimony was presented by PG&E through a supervising rate engineer and by its manager of the Materials Department called at the request of the Commission staff. The staff showing was presented by the staff engineer from the Utilities Division.

Discussion

PG&E's testimony and exhibits were presented to substantiate its requested rate reduction and, in addition, contained information requested by the staff regarding ECAC rates based on time-of-use shift from on-peak to partial and off-peak periods. It is PG&E's proposal that any decrease in ECAC rates be uniform to all nonresidential service. However, if the Commission establishes a time-of-use differential in the ECAC rates, PG&E believes such rates should include an adjustment to the base rate.

In its report on Application No. 58033 the staff presented the following:

"CONCLUSIONS AND RECOMMENDATIONS

"1. The staff recommends that the revenue reduction be $200 million based on the latest estimate of the over-collection in the balancing account as discussed in scenarios 1 and 2 is reasonable in this application.

"2. The Commission in Decision No. 57199 [sic] (pages 6 and 7) treated Edison's underlift payments as prepayments and did not allow such underlift entries in the balancing account but rather directed Edison to apply these payments as credits against future purchases. Should PG&E not be able to recapture these costs, it can always request that these be recovered in future ECAC proceedings. The staff recommends that all underlift payments be excluded in the balancing account for this proceeding.

"3. Applying TOU principles to energy rates is consistent with Decision No. 85559 and Commission policy. The staff recommends that TOU ECAC rates as shown in Table 3-A be adopted with the 5% shift case being more realistic.

"4. The remaining revenue should be spread on a uniform ¢/kWh to all other non-lifeline sales and to the residential non-lifeline excess block. The recommended reduction is 0.446¢/kWh making the new ECAC non-lifeline rate 2.250¢/kWh.

"5. The balancing account was audited by the Finance Division for the period ending March 31, 1977. It is recommended that the Finance Division audit PG&E books to bring the account up-to-date prior to the next PG&E ECAC proceeding."

In its Report On The Reasonableness Of Prices Paid For Fuel And Energy Purchases During 1977, the staff presented the following:

"6. It is recommended that:

"A. PG&E review its fossil fuel procurement practices to not only accommodate drought situations but to arrive at more prudent practices in times of high precipitation.

"B. PG&E continue its practices in nuclear fuel procurement and geothermal pricing negotiations with respective suppliers.

"C. PG&E review the viability of fixed-payment contracts and to pursue through legal means to retrieve those payments which were paid to capacity not delivered by its suppliers.

"D. PG&E must attempt to recover, through recapture clauses, underlift payments to minimize burden to electric customers.

"E. PG&E explore the possibility of reducing Canadian natural gas deliveries to alleviate the oversupply of oil situation.

"F. PG&E explore more fully renewable resource cogeneration options to further reduce production costs and achieve energy savings.

"G. The Commission finds that prices paid for fuel and energy purchases by PG&E, for the period October 1976 to March 1978, are reasonable relative to other California electric utilities. On the other hand, the procurement of fuel quantities should be further refined to minimize overall generation costs."

Position of Parties at Submission

PG&E

PG&E believes that the staff's time-of-use proposal could have an adverse effect on its base rate revenues. PG&E believes that rate design proposals should not be raised in an energy cost proceeding but properly should be raised in proceedings such as the recent time-of-use applications.

PG&E is seriously concerned that if the staff proposal that all underlift payments made by PG&E be excluded from the balancing account is implemented, it may not be able to recover these costs from the ratepayer at a later date because attempting to recover these payments in a general rate case may very well run afoul of the ruling against retroactive ratemaking.

According to PG&E, neither proposal for a rate reduction of $178.9 million, nor the staff's proposal for a $200 million rate reduction, would be affected by PG&E's present treatment of underlift payments. These payments go into the balancing account and the ratepayers are in no way harmed by this entry.

PG&E expects to have a report by its independent consultants on its fuel procurement procedures by the end of October 1978. PG&E believes that that would be a much more appropriate time for the Commission to make an adjustment in its balancing account treatment of underlift payments if deemed necessary.

<u>Commission Staff</u>

The central issue in this proceeding is necessarily the amount of rate reduction.

In the staff's opinion, its evidence and cross-examination of PG&E witnesses has shown that $178.9 million is better recognized as a floor for a possible rate reduction, and that the $200 million reduction recommended by staff is certainly reasonable and ought to be the minimum granted.

The underlying concern in any ECAC proceeding is the reasonableness of prices paid for energy.

In this regard, while the record has been developed to some extent, the staff concurs with the recommendation of PG&E that the Commission ought to defer judgment on the reasonableness of prices until after the Management Consultants' Report becomes available.

It is important in that regard also to point out that the Finance Division's participation in auditing results in this record has been limited to date, but is expected to be available in the next ECAC proceeding.

The treatment of the underlift charges[1] has been raised and needs to be addressed further in future proceedings.

Staff has pointed out that a similar issue has been decided by the Commission with regard to Southern California Edison Company and has recommended that the charges incurred by PG&E might be similarly treated by the Commission.

The question has been raised by the staff as to whether such underlift charges have actually been incurred as the result of Gas Department policies by PG&E and, if in fact there are substantial underlift charges to be made, whether it is the gas ratepayers who ought to be paying those charges rather than the Electric Department ratepayers. That is a substantial question that needs to be addressed by the management consultants and which we will address in future proceedings.

With regard to the retroactive ratemaking argument, the staff believes that the law is uncertain with regard to retroactive ratemaking. However, if there is a barrier to the utility recovering such ✓ underlift charges by excluding them from the balancing account and if it is determined that the electric ratepayers are not to pay those charges and that the gas ratepayers should more appropriately be charged for those underlift amounts, then perhaps that would be a barrier to PG&E ever recovering from gas ratepayers those underlift expenses.

The staff has raised the issue of time-of-use rates in this ECAC proceeding in order to give the Commission the opportunity to consider the appropriateness of reflecting significant reductions in ECAC rates in the time-of-use rates.

1/ A charge for not fully taking oil volumes contracted for.

California Manufacturers Association (CMA)

CMA believes that rate design belongs in a rate case. In any case, CMA recommends that the ECAC go down precisely as it went up.

California Farm Bureau Federation (Farm Bureau)

The Farm Bureau supports the staff's recommendation of a $200 million reduction.

The Farm Bureau sees that both the company and the staff are taking the same approach to rate spread. The Farm Bureau supports their approach which is essentially an equal cents per kilowatt-hour reduction for nonlifeline sales, except that the non-lifeline residential excess block should be equated with the other nonlifeline rate.

In regard to the question of ECAC as applied to time-of-use rates, the Farm Bureau prefers PG&E's approach to the staff's approach. It believes that the difference in energy costs reflected in base rate for peak versus off-peak hours as they currently exist in the A-17 rate to be renamed A-23 and as proposed by the company for the A-13 rate to be renamed A-22 in Application No. 57666 is appropriate. It does not see a need demonstrated for a greater difference in the peak and off-peak rates, as would be produced by the ECAC proposal of the staff. It thinks that creating differential ECAC rates according to the hour of the day could lead to shifts in base rate revenue and could also make the computation of the ECAC revenues and ECAC rate quite confusing. The Farm Bureau takes no position on the question of how underlift charges should be handled.

We have reviewed the evidence and arguments advanced by the parties. It is clear that many of the points raised by the staff have merit including the proposed time-of-use dependent ECAC for TOU schedules. Although the staff proposal has some merit, the record in this case has not been sufficiently developed to support a TOU differential in ECAC rates in addition to the four-mill differential in base rates. In addition, we have stated in the past that we would implement ECAC reductions resulting from the end of the recent drought in the same manner in which we implemented the increases. However, we believe there is some merit in the concept of a TOU differential in the ECAC rate and believe this should be pursued. We will therefore direct PG&E to develop detailed data regarding differences in energy costs with time of use and to present proposals for a TOU-varying ECAC rate in their next regular ECAC filing in January.

Concurrently with this order, Decision No. 89316 in the utility's General Rate Application No. 57284 establishes lifeline allowances for air conditioning under certain circumstances. Based on the adopted air-conditioning allowance for six months, 684 GWh is estimated to shift from nonlifeline use to lifeline use. Hitherto this energy was billed under the rates applicable to the second usage block above the lifeline block in residential schedules where its ECAC rate has been $0.02696/kWh. Consistent with lifeline treatment of such sales, present lifeline ECAC rates of $0.01003/kWh will be applied to these sales resulting in a revenue reduction of $11,580,000. This decrease, together with the staff's recommended reduction in ECAC rates for nonlifeline usages, will result in a total revenue reduction of $208,577,000.

Findings

1. A calculation of ECAC rates under the ECAC tariff based on a recorded period ending March 31, 1978 would yield a rate increase of approximately $20.2 million.

2. For the twelve-month recorded period ending March 31, 1978, PG&E's hydroelectric production plus northern California purchased hydro power was 66 percent of normal, up from 42 percent of normal for calendar 1977. In the first quarter of 1978, such hydro production was 122 percent of normal and for calendar 1978 is presently estimated to be above normal. In addition, greater than normal precipitation in the Pacific Northwest is expected to provide additional hydro energy from that area.

3. The present availability of hydroelectric power would normally not be reflected in ECAC until January 1, 1979.

4. Based on the good hydroelectric conditions, PG&E is now proposing a $178,929,000 reduction in order to avoid radical fluctuations in ECAC rates.

5. The staff recommended a reduction to $0.0225 per kWh for all nonlifeline ECAC rates. Except for time-of-use ECAC rates, the staff based its recommendation on studies of nonlifeline sales for the twelve-month period ending March 1978.

6. The staff recommended that time-of-use ECAC rates be based on estimated sales for the test year 1978 adjusted upward by 0.7 percent to account for the expected growth in the period between July 1, 1978, and June 30, 1979, and on 5 percent shift in energy use.

7. PG&E recommended that any rate reduction be uniform to all nonresidential service.

8. The interested parties agree with PG&E's recommendation.

9. The staff recommended that all underlift payments be excluded in the balancing account for this proceeding.

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

11. The application of lifeline rates to air conditioning will result in an ECAC revenue reduction of $11,580,000.

Conclusions

1. The staff's proposed reduction in ECAC rates is reasonable.

2. The reduction should be spread uniformly to all classes excluding lifeline sales in the following manner:

July 1, 1978 - June 30, 1979

	Sales GWh	Present ECAC $/kWh	Reduced ECAC $/kWh	Revenue Reduction M$
Class of Service				
Residential				
Lifeline	8,691	$0.01003	$0.01003	$ -
Lifeline Air Cond.	684	0.02696	0.01003	11,580
Nonlifeline 1st Block	1,869	0.02444	0.02250	3,626
Nonlifeline 2nd Block	7,101	0.02696	0.02250	31,670
Subtotal	18,345			46,876
Nonresidential				
Small Light & Power	4,421	0.02696	0.02250	19,718
Medium Light & Power	12,359	0.02696	0.02250	55,121
Large Light & Power	14,225	0.02696	0.02250	63,442
Public Authority	707	0.02696	0.02250	3,153
Agricultural	3,666	0.02696	0.02250	16,350
Street Lighting	498	0.02696	0.02250	2,221
Railroad	241	0.02696	0.02250	1,075
Internal	139	0.02696	0.02250	620
Subtotal	36,256			161,701
Total	54.601*			208,577

*Excludes sale to Department of Water Resources and Domestic Employee Discounts.

3. Time-of-use ECAC rates for the schedules having time-of-use base rates should be presented by the utility during January 1979 ECAC filing. Since the ECAC rates will be reduced uniformly for time-of-use customers, the question of whether a 5 percent or 10 percent shift will be caused is not relevant to this proceeding.

4. We should await the management consultants' study before judging the reasonableness of PG&E's energy costs.

5. We should await the Finance Division's audit before deciding the issue of underlift charges.

5. 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 (PG&E) is authorized to file with this Commission on or after the effective date of this order, in conformity with the provision of General Order No. 96-A, revised tariff schedules with rates, charges, and conditions modified as follows:

   a. The Energy Cost Adjustment Clause (ECAC) rates are reduced from $0.02444 to $0.0225 per kilowatt-hour for all nonlifeline residential initial block usage and from $0.02696 to $0.0225 per kilowatt-hour for all other nonlifeline usage.

   b. The lifeline ECAC rate of $0.01003 per kilowatt-hour will remain unchanged and the rate will also apply to lifeline air-conditioning allowance established under the General Rate Application No. 57284.

2. During the revision for the ECAC filing for January 1, 1979, PG&E shall present time-of-use ECAC rates for the schedules having time-of-use rates then in effect.

3. The effective date of the revised schedules will be the same as the effective date for the revised schedules filed pursuant to the ordering paragraphs of the decision in Application No. 57284.

The effective date of this order is the date hereof.

Dated at San Francisco, California, this 6th day of SEPTEMBER, 1978.

Robert Batinovich
President

William Symons Jr.

Vernon L. Sturgeon

Richard D. Gravelle

Claire T. Dedrick

Commissioners