Decision No. 92249 SEP 16 1980

ORIGINAL

BEFORE THE PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

Application of PACIFIC GAS AND ELECTRIC COMPANY for Authority to Decrease its Electric Rates and Charges effective August 1, 1980 in Accordance with the Energy Cost Adjustment Clause as Modified by Interim Decision No. 91277. (Electric)	Application No. 59694 (Filed May 28, 1980)

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William Hancock, for Cut Utility Rates Today, protestant.
Michel Peter Florio, Attorney at Law, for Toward Utility Rate Normalization; Lynn Ellen Myers, for Southern California Edison Company; Allen R. Crown and Glen J. Sullivan, Attorneys at Law, for California Farm Bureau Federation; Harry K. Winters, for University of California; and Roseann Emerson, for herself; interested parties.
Rufus G. Thayer, Attorney at Law, Julian E. Ajello, and Raymond Charvez, for the Commission staff.

O P I N I O N

Summary

By this decision Pacific Gas and Electric Company (PG&E) is authorized to reduce its Energy Cost Adjustment Clause (ECAC) revenues by about 7.4 percent or an estimated $261 million for the 12-month forecast period ending July 31, 1981. The rate

reduction reflects an absorption, on a dollar-for-dollar basis, of a $115.3 million increase in fuel costs and will amortize over a six-month period $91 million in residual undercollected energy costs as of August 1, 1980. This latter adjustment represents a reduction of $194 million in PG&E's ECAC balancing account.

All of PG&E's customer classes (residential, commercial, and industrial) receive the same uniform reduction of 0.459¢/kWh. For the residential class, however, the conservation-oriented three-tier rate spread has been retained. Under this basis for electric charges a domestic customer who holds his usage to the basic lifeline quantity of 240 kWh per month will experience a decrease of $0.86 (7.51 percent) in monthly billings; domestic customers whose monthly usage is double the basic lifeline quantity (480 kWh) would realize a reduction of approximately $2.19 (7.67 percent) in their monthly billings; and domestic customers using in excess of 1,000 kWh will experience a monthly downward adjustment of $5.59 (7.69 percent) or more. Additionally, the continued use of a six-month amortization period, in lieu of a prior-adopted 12-month period, for offsetting the undercollected fuel costs reflected in PG&E's ECAC balancing account results in substantial savings in interest costs to the utility's ratepayers.

It is anticipated that PG&E's current outstanding undercollection of energy-related costs of some $91 million will be materially reduced over the effective period of the electric rates authorized by this decision. In this connection it is noted that the utility's next energy cost adjustment in rates is scheduled for a December 1, 1980 revision date.

Introduction

PG&E requests authority to reduce, effective August 1, 1980, its electric rates and charges resulting under the ECAC billing factors currently provided in the utility's electric tariff as modified by interim Decision No. 91277, dated January 29, 1980, in OII No. 56. The proposed rate adjustment would decrease PG&E's gross electric revenues by about 7.4 percent or an estimated $261 million for the 12-month period ending July 31, 1981. The sought authority is designed to (1) offset on a dollar-for-dollar basis an estimated 2 percent overall increase in the current cost of fuel and purchased energy for the 12-month forecast period beginning August 1, 1980, and (2) amortize over the first six months of the forecast period approximately $91 million in under-collected fuel-related expenses remaining in PG&E's ECAC balancing account as of August 1, 1980. This latter adjustment represents a reduction of $194 million from the ECAC balance reflected in present rates.

Application No. 59694 was assigned to Commissioner Grimes and referred to Administrative Law Judge Gagnon for hearing. A duly noticed public hearing was held in San Francisco on July 30, 1980 and the matter was then submitted for decision. Direct evidence relative to the sought ECAC tariff adjustment was presented by PG&E and the Commission staff. A PG&E residential ratepayer testified that under her family's present conservation efforts the monthly electric usage throughout the year averaged between 600-800 kilowatt-hours. Since this usage reflected the approximate common mid-point billing range, as between the newly established three-tier rate scales and the prior two-tier rate structure, the

witness saw little advantage to the three-tier rate structure. This contention, however, assumes that the ratepayer, having received an appropriate price signal, has achieved a maximum level of conservation which, of course, is the primary objective of PG&E's three-tier residential electric rate structure.

ECAC Billing Factors

PG&E's ECAC billing factors were last adjusted to reflect increased energy costs for the 12-month forecast period beginning April 1, 1980 pursuant to Decision No. 91721, dated April 29, 1980 in Application No. 59463. The established ECAC procedures, as modified by Decision No. 91277, supra, and implemented by PG&E provide that:

1. ECAC filings are permitted to be made three times per year, covering periods of no more than four months between revision dates, in lieu of semiannual filings.
2. The utility is allowed to file its ECAC application based on estimated balancing account balances, and a forecasted resource mix and sales estimate.
3. Fuel prices and balancing account balances are to be estimated as of a given revision date; forecasted resource mix should be the mix that is the basis of the company's procurement strategy. The price estimates are to be examined on the record. The resource mix will be adopted as filed in order to avoid the Commission's prejudging the prudency of the utility's fuel procurement strategy.
4. Issues relating to reasonableness of ECAC recovery of particular expenses are to be deferred to at least the following ECAC filing.

5. For purposes of interim Decision No. 91277, supra, each utility is permitted to select a specific amortization period.
6. PG&E's present revision date is August 1, 1980.
7. PG&E's ECAC application was filed at least 40 days prior to its tariff revision date.

The ECAC billing factors which PG&E now proposes to adjust are comprised of two rate components. An offset rate is first established to recover the estimated costs for fuel and purchased energy as of the August 1, 1980 revision date. Since the offset rate is predicated upon a 12-month forecast of the estimated level of fuel-related expenses which may not coincide with the energy-related costs actually incurred during the forecast period when the offset rate was in effect, the utility may experience either an over- or undercollection of energy-related expenses which are reflected in an ECAC balancing account. PG&E's ECAC billing factors also include a balancing rate component which is designed to amortize the undercollected balance reflected in the ECAC balance account over a period of six months.

PG&E's ECAC Adjustment

For the 12-month forecast period ending July 31, 1981, PG&E estimates that hydroelectric production will remain approximately the same as forecasted in PG&E's last ECAC Application No. 59463 (Decision No. 91721). At that time the utility estimated that hydroelectric production would increase from about 4 percent above normal in the prior 12-month record period ending September 30, 1979 to about 16 percent above normal during the forecast period ending March 31, 1981. In PG&E's application and Exhibit 1 it is

explained that for the current August 1, 1980 forecast period it is expected that natural gas usage in the utility's power plants will decrease by about 24 percent while fuel oil usage is expected to increase about 23 percent. In addition, power available for purchase, including relatively low-priced power from the Northwest, is expected to decrease slightly, and there is expected to be a decline of about 2 percent in customer sales. Consequently, PG&E projects a net reduction of 3 percent in steam electric fuel use. However, since the prices for natural gas and fuel oil continue to increase by approximately 6 percent, the overall effect is an increase of about 2 percent in the current cost of steam electric fuel and purchased energy. As a result PG&E proposes to increase its ECAC offset rate component by an amount sufficient to offset the higher energy costs projected for the 12-month forecast period beginning with August 1, 1980.[1/] A comparison of the price for steam electric fuel and purchased energy, as employed in the last ECAC adjustment for the April 1, 1980 revision date, with the like current price used by PG&E in this proceeding for the August 1, 1980 revision rate (Exhibit 2), is summarized in Table 1:

1/ PG&E's Exhibit 2 indicates that an energy-related cost offset rate increase of $115.3 million, based on adjusted kWh sales of 56,834 millions, is required for the August 1, 1980 forecast period.

TABLE 1

	ECAC Revision Dates April 1, 1980 - August 1, 1980	
	($/Million Btu's)	
Gas Rate (Schedule No. G-55)*	4.03660	4.50000
Estimated Inventory Cost-Fuel Oil		
Residual Oil	3.95176	4.20152
Distillate Oil	5.42260	5.64411
	(Mills/kWh)	
Geothermal Steam Contract Price	18.63	18.63
Purchased & Interchange Power	13.32	13.50

* Authorized by Decision No. 91720, dated April 29, 1980.

The price of natural gas to PG&E's steam electric plants of $4.50000/million Btu's shown in Table 1 reflects the inter-departmental gas rate Schedule No. G-55 proposed to be effective July 1, 1980 by PG&E, on behalf of its Gas Department, in Application No. 59695 filed concurrently with Application No. 59694. If the Commission were to authorize a different G-55 gas rate in the aforementioned proceeding, prior to its reaching a decision in this matter, PG&E suggests that the G-55 gas rate proposed herein be amended accordingly. From Table 1 it will also be noted that no change is contemplated in the existing geothermal contract steam price of 18.63 mills/kWh.

PG&E states that during the four months between the last forecast period beginning April 1, 1980 and July 31, 1980, it estimates that the undercollected balance in the utility's ECAC balancing account will be approximately $91 million. This represents

a reduction of $194 million in this account from the April 1, 1980 balance reflected in the level of the present ECAC billing factors. PG&E proposes to reduce the present ECAC balancing rate component to reflect the lower estimated undercollected balance of $91 million as of August 1, 1980. Responsive to the Commission's views expressed in Decisions Nos. 91277 and 91721, supra, PG&E has also determined to continue its amortization of the outstanding ECAC undercollections over the first six months of the forecast period, commencing with August 1, 1980, so as to avoid the cash-flow burdens associated with large amounts of undercollected energy-related expenses.

By Decision No. 91269, dated January 29, 1980, in OII No. 56, the Commission ordered interest rates applicable to ECAC balancing accounts revised to conform with the current cost of short-term borrowing by the utilities. The use of a six-month amortization period, in lieu of a like 12-month period, for the estimated August 1, 1980 balance in the ECAC balancing account will result in savings in interest costs to PG&E's ratepayers. As indicated in the last ECAC Decision No. 91721, supra, it is in the best interest of both PG&E and its ratepayers that an effort be made to reduce the ECAC undercollections as rapidly as possible.

PG&E's ECAC Rate Proposal

For the 12-month forecast period ending July 31, 1981, PG&E's rate proposal would decrease its gross electric revenues by some $261 million. Exhibit 2 indicates that this revenue reduction is the result of a proposed annual increase ($115.3 million) in the fuel offset rates with a concomitant projected decrease ($377 million) in the utility's ECAC balancing rate component. In order to generate the requested adjusted energy-related cost

offset revenue requirements for the August 1, 1980 forecast period, PG&E seeks authority to adjust its ECAC billing factors as shown in the following Table 2:

TABLE 2

Proposed Adjustment in
PG&E's ECAC Billing Factors

Class of Service	Fuel Offset Rate	Balancing Rate	Total Adj. Rate
		(¢/kWh)	
Residential			
Lifeline - Tier 1	0.160	-0.518	-0.358
Nonlifeline - Tier 2	0.220	-0.715	-0.495
Nonlifeline - Tier 3	0.304	-0.986	-0.682
Nonresidential	0.205	-0.664	-0.459

Note: Adjusted for franchise taxes and uncollectibles.

PG&E proposes to reduce its total adjusted ECAC billing factors for the residential and nonresidential classes of service by a uniform 0.459¢/kWh. The suggested decrease for the residential class is designed to maintain the differential of 38 percent between Tier 1 and Tier 2 and between Tier 2 and Tier 3 total average rates as established by Decision No. 91721, supra. The estimated decrease in PG&E's California jurisdictional gross revenues for each class of service for the forecast year beginning August 1, 1980 over revenues at electric rates effective April 29, 1980 is as follows:

TABLE 3

	Proposed Decrease (August 1, 1980 - July 31, 1981)	
	Amount ($000's)	Percent
Residential		
Lifeline	$ 37,311	7.7%
Nonlifeline	52,097	7.7
Residential Subtotal	89,408	7.7
Small Light and Power	21,344	6.3
Medium Light and Power	60,313	7.2
Large Light and Power	68,083	8.0
Public Authority	1,478	6.2
Agricultural	17,006	7.3
Street Lighting	1,776	4.5
Railway	1,037	8.5
Interdepartmental	560	7.4
Total Jurisdictional	261,005	7.4

PG&E's Proposed Fuel Offset Rate Revisions

In Exhibit 2 PG&E's estimated current cost for fuel and purchased energy for the 12-month forecast period beginning August 1, 1980 amounts to $1,757,307,000 based on 56,834 millions of kWh sales and an offset rate of 3.092¢/kWh. Under present fuel offset rates, effective April 29, 1980, total ECAC revenues of $1,641,985,000 are generated. PG&E seeks, therefore, an energy-related cost offset revenue increase of $115,322,000 ($1,757,307,000 minus $1,641,985,000) which, in turn, relates to a uniform rate increase of 0.203¢/kWh (0.205¢/kWh when adjusted for franchise taxes and uncollectibles as shown in Table 2).

PG&E's Proposed Balancing Rate Revisions

The ECAC balancing rate components proposed by PG&E are computed so as to amortize the August 1, 1980 estimated undercollected balance of $90,839,000 through one-half of the sales estimated for the 12-month forecast period ending July 31, 1981. For purposes of calculating the balancing rates, disallowances previously adopted by the Commission in Decision No. 91335, dated February 13, 1980, in Application No. 59248 (page 7, Table 2) have been deducted by PG&E from the balance in the ECAC balancing account as of September 30, 1979. Such disallowances are, therefore, fully reflected, with interest, in the estimated August 1, 1980 balance and in the proposed balancing rates.

With respect to the exclusion of energy-related fuel cost losses due to excess sales over purchases to the California Department of Water Resources (DWR), PG&E explained that such adjustment has been reflected in the ECAC balancing rate calculations to the extent that such exclusion is reflected in the aforementioned disallowances ordered by Decision No. 91335, supra. For the period between September 30, 1979 and July 31, 1980, PG&E estimated that no further exclusion is required since purchases from DWR exceeded sales to DWR by 260 million kWh.

The estimated undercollection of $90,839,000 remaining in PG&E's ECAC balancing account as of July 31, 1980 relates to a balancing rate factor of 0.320¢/kWh based on a semiannual estimate of 28,417 millions of kWh sales. Under the current level of balancing rates, effective April 29, 1980, total ECAC revenues of $277,853,000 are generated. This results in an overcollection of some $187,014,000 to be eliminated from the present earning

level of PG&E's ECAC balancing rates. To accomplish this objective, PG&E proposes uniform decrease of -0.658¢/kWh (0.664¢/kWh when adjusted for franchise taxes and uncollectibles as shown in Table 2 hereof) in the existing level of its ECAC balancing rate factors.

Staff Investigation

The Commission's Utilities Division staff Exhibit 3 contains the results of the staff's investigation into PG&E's sought ECAC adjustment, including the staff's recommendations relative thereto. While a detailed staff audit of the utility's balancing account entries was not made, the underlying work papers supporting the sought ECAC adjustment were thoroughly examined. The staff is in basic agreement with PG&E's ECAC proposal. The staff explains, however, that it used the latest estimate of the July 31, 1980 ECAC balance which assertedly is a more accurate portrayal of the declining undercollection than the April estimate. On this basis the staff recommends an overall decrement of -0.485¢/kWh, in lieu of -0.459¢/kWh, as computed by PG&E. The staff, however, does not factually disclose how its alternative ECAC adjustment was determined. PG&E's proposed ECAC adjustment of -0.459¢/kWh covers the April 1, 1980 through July 31, 1980 quarterly ECAC revision period which is in accordance with ECAC adjustment procedures as modified by Decision No. 91277, supra, and as employed in PG&E's last ECAC Decision No. 91721, supra. This ECAC adjustment procedure has been consistently used when amortizing additional undercollections reflected in the utility's ECAC balance account and should not now be changed when amortizing a related declining undercollected balance. Accordingly, the PG&E ECAC computations will be adopted.

Unscheduled Outages

At the ECAC proceeding leading up to Decision No. 91335, supra, Toward Utility Rate Normalization (TURN) endeavored to obtain the basis for certain unscheduled outages that occurred at several of PG&E's power plants during the 12-month record period ending September 30, 1979. TURN sought to develop the net cost of any replacement power required with respect to each outage and whether the outages were the direct result of unreasonable and/or imprudent actions on the part of PG&E. If it were shown that any of the outages were the direct result of unreasonable and/or imprudent actions by PG&E, and the cost of replacement power involved was higher than would otherwise be incurred, TURN would move for the exclusion of the resulting higher energy-related fuel costs from PG&E's proposed ECAC offset rate adjustment. The staff supported TURN's position in this matter.[2/]

In Decision No. 91721 it was agreed that this matter should be deferred to a future ECAC proceeding when the parties involved were prepared to proceed toward a final resolution of this issue. In conjunction with the presentation of staff Exhibit 3, the assigned staff counsel made the following statement relative to the aforementioned unscheduled outages (RT 39):

> "In Decision 91721, which I believe is the last ECAC proceeding for PG&E, at pages 16 and 17 there is a discussion of unscheduled outages for PG&E, an issue raised by counsel for TURN.
>
> "As indicated on page 17 of that decision, the Commission put over to a future proceeding the development of that issue, since no party was prepared to proceed at that time.

2/ For a list of the unscheduled outages involved, see Decisions Nos. 91335 and 91721, supra.

"The staff would like to indicate for the record that we have reviewed the specific outages listed at page 17 of that decision, as well as subsequent outages into--or, pretty well through the first quarter of 1980, and in no case has the staff concluded that such outages were unreasonable.

"And in the staff's opinion, we see no point in pursuing that issue, your Honor.

"We would recommend it be closed out in this case, unless someone has further evidence which they wish to present."

The aforementioned staff position and recommendation were not opposed and will be adopted.

Rate Design

The Commission's current ECAC rate design policy as enunciated in PG&E's recent general rate Decision No. 91107, as subsequently modified by Decision No. 91316, issued January 29, 1980 in Application No. 58545, stated:

"Future ECAC Proceedings

In line with its position advanced in Decision No. 90869, supra, the Commission now wishes to establish as future policy that electric rate restructuring between classes of service be accomplished only in general rate proceedings. Absent a convincing showing that such a result would be inequitable, we plan to process subsequent increases or decreases in the ECAC billing factor according to the standards set forth herein. Hereafter, PG&E ECAC rates should be set so that the nonlifeline residential total average rate is 35 to 50 percent above the lifeline total average rate. The lifeline and nonlifeline residential ECAC rates should be calculated in relation to a single ECAC rate for nonresidential customers, so as to assign an equal cents per kWh increase, on the average, to each customer

> class (including the residential class as a whole). This approach will maintain current differentials in the rate per kWh for each customer class. The nonlifeline residential rate will remain the highest rate on the system."

Pursuant to the aforementioned Commission policy, in PG&E's ECAC Decision No. 91335, supra, we applied a uniform ECAC increase to both the residential and nonresidential classes of service. We also reallocated the increase for the residential class so that the domestic nonlifeline total average rate was 38.0 percent above the like average lifeline rate. In doing so, we expressed an urgent need for the establishment of a rate spread within the residential class rate design that would be sufficiently conservation-oriented to isolate and/or discourage the unnecessary usage of electric energy. Accordingly, in the last ECAC Decision No. 91721, a three-tier, in lieu of the then existing two-tier, rate spread within the residential class was established effective April 29, 1980. The total average nonlifeline (Tier 2) rate was set at 38 percent above the total average lifeline (Tier 1) rate, and the level of the total average nonlifeline (Tier 3) rate was set at 38 percent above the total average nonlifeline (Tier 2) rate.

PG&E's Rate Design

To reflect the net effect of a declining balance in its ECAC balancing account and remove the potential for overcollections under the existing level of ECAC balancing rate factors, PG&E recommends a reduction in the current ECAC billing factors sufficient to decrease energy-related cost offset California jurisdictional gross revenues by approximately $261 million for the 12-month forecast

period ending July 31, 1981. The rate reduction would be allocated uniformly between the residential class and nonresidential class of customers. However, the rate reduction assigned to the domestic customer class would be spread over the three-tier rate structure to maintain the 38 percent differential established by Decision No. 91721, supra. The resulting ECAC rate adjustment reduces the utility's ECAC billing factors as set forth in the following Table 4:

TABLE 4

PG&E's Proposed Adjusted ECAC Billing Factors
For the August 1, 1980 Revision Date

	Residential			
	Lifeline	Nonlifeline		
	Tier 1	Tier 2	Tier 3	Nonresidential
			(¢/kWh)	
Present	2.350	3.964	6.389	4.063
Decrease	- 0.358	- 0.495	- 0.682	- 0.459
Proposed Rates	1.992	3.469	5.707	3.604

Note: (a) Reflects a Schedule No. G-55 gas rate of $4.50000 per million Btu.

(b) Adjusted for franchise taxes and uncollectibles.

In Exhibit 3 the staff indicates that PG&E's August 1, 1980 gas price estimate of 4.50$/MBtu agrees quite closely with the like staff estimate of 4.4663$/MBtu. Should a different Schedule No. G-55 gas rate be authorized pursuant to PG&E's pending Application No. 59695, any resulting over- or undercollection would be resolved through the medium of the utility's ECAC balancing account in future ECAC proceedings.

Staff Rate Design

The staff recommends a return to a two-tier rate structure for the residential class based on total average system rates for two reasons. First, the staff contends that the current three-tier rate spread is inequitable in that it arbitrarily discriminates against the domestic customer who uses large amounts of electricity and rewards small users of electricity without consideration for their relative conservation efforts. Secondly, the staff position rests upon a recent elasticity study performed by San Diego Gas & Electric Company (SDG&E) as analyzed in the staff report presented in Application No. 59643 which assertedly suggests that steeply inverted rates do not encourage conservation. The staff further explains its opposition to the present three-tier rate spread for the residential class as follows:

> "In order to avoid collecting too much revenue, a very high third-tier rate necessitates a very low lifeline rate. Customers whose minimum energy requirements are large will be penalized by the high third-tier rate and will intensify their conservation efforts. Customers whose minimum energy requirements are small (for example, a couple living in an apartment, both of whom work) will only experience the low lifeline rate and will have much less of an incentive to conserve. The San Diego study suggests that the net effect of a steeply inverted rate design is that the small users will waste more energy than the large users are able to conserve and that maximum conservation will occur from a rate increase applied only to lifeline sales. A rate increase applied to lifeline sales affects both large and small users and encourages all to conserve. The staff's two-tier rate design uses a second-tier average rate which is 50% higher than the first-tier

average rate. This is within the guidelines established in Decision No. 91107. In future cases, in the interest of conservation, it is recommended that the Commission consider reducing this amount of inversion.

"The staff's alternate three-tier rate design uses a uniform percent reduction for all three tiers. This results in a lesser degree of inversion than the utility's proposal and therefore should be more conducive to conservation in light of the SDG&E study."

The staff recommends that a maximum 50 percent lifeline/nonlifeline two-tier rate differential for the domestic class be adopted. This represents a 14.2 percent reduction in the lifeline/nonlifeline rate differential under the existing three-tier rate structure. A comparison of the adjusted ECAC billing factors proposed by PG&E and the staff for the August 1, 1980 revision date follows:

TABLE 5

Class of Service	ECAC Billing Factors		
	Present Rates	Proposed Rates	
		PG&E	Staff
		(¢/kWh)	
Residential			
Tier 1	2.350	1.992	2.201
Tier 2	3.964	3.469	4.295
Tier 3	6.389	5.707	4.295
Other Classes	4.063	3.604	3.578

The staff's proposed 50 percent rate differential between lifeline and nonlifeline domestic rates is based on the utility's total average system rates and is within the Commission's guidelines established by Decision No. 91107, dated December 19, 1979 in Application No. 58545. A comparison of the total average system

rates resulting under the several alternative ECAC rate proposals for PG&E with the like total average rates resulting under the ECAC adjustments of other California utilities is summarized in the following table:

TABLE 6

ENERGY COST ADJUSTMENT CLAUSE

Comparison of Total Average Rates

Class	SPPC ¢/kWh Decision Pending 7/80	SDG&E ¢/kWh 7/2/80	SCE ¢/kWh 5/20/80	PG&E Present ¢/kWh 4/29/80	PG&E Company ¢/kWh	PG&E Staff 1 ¢/kWh Uniform %	PG&E Staff 2 ¢/kWh 50% LL:NLL
Domestic							
Lifeline	3.723¢	7.622¢	5.115¢	4.624¢	4.266¢	4.332%	4.475¢
Second Tier	5.865	11.434	8.730	6.382	5.887	5.890	6.713
Third Tier	-	-	-	8.807	8.125	8.014	6.713
Total	5.155	9.217	6.609	5.999	5.540	5.494	5.514
Small Light & Power	5.315	10.223	-	7.244	6.785	6.739	6.759
Medium Light & Power	4.343	9.172	6.943	6.320	5.861	5.815	5.835
Large Light & Power	4.185	8.787	6.327	5.641	5.182	5.136	5.156
Agricultural	6.115	9.835	7.094	6.184	5.725	5.679	5.699
Total Avg. System Rate (TASR)	5.027	9.504	6.609	6.119	5.660	5.614	5.634
TASR Above Lifeline	35.0%	24.7%	29.2%	32.3%	32.7%	29.6%	25.9%
Second Tier Above Lifeline (%)	57.5	50.0	70.7	38.0	38.0	36.0	50.0
Third Tier Above Second Tier (%)	-	-	-	38.0	38.0	36.1	-
Combined Second and Third Tiers Above Lifeline (%)	57.5	50.0	70.7	64.2	64.2	60.5	50.0

Adopted Rate Design

The staff-recommended abandonment of the current three-tier rate structure for PG&E's domestic service and a return to a two-tier rate spread, based on a 50 percent differential between lifeline/nonlifeline total average system rates (Table 6) is opposed by both TURN and Cut Utility Rates Today. These consumer advocates urge the retention of the three-tier rate structure as proposed by PG&E for its residential customers. The consumer advocates both maintain that the staff's reliance upon the SDG&E elasticity study is improper and that the staff proposal is not conducive to the promotion of conservation within the domestic class.

The staff's justification submitted in support of its recommended alternative ECAC two-tier rate proposal is, in the first instance, premised upon an erroneous understanding of the overall economics involved, including the fundamental objectives underlying PG&E's current three-tier rate spread for its residential service. For example, it is the optimum objective of the three-tier rate concept to project a conservation price signal of sufficient magnitude to cause domestic users of large quantities of electric power to conserve their usage and move out of the costly third-tier rate block which is designed for the unlimited usage of electricity. In the event the ratepayer determines that his electric power requirements preclude restricted usage at the lifeline quantity, then an evaluation of priorities must be made by the domestic customer as to whether his electric usage will be at the prescribed allowance for either the second or third nonlifeline rate tier.

The staff also maintains that customers with minimum requirements, experiencing only the first-tier lifeline rate, have little incentive to further conserve energy. Even if this staff contention were proven to be correct, it would not, by itself, constitute sufficient grounds to now abandon the three-tier rate concept for domestic service just recently found to be justified in Decision No. 91721, supra. Suffice it to say that the signal we receive from domestic ratepayers, with minimum lifeline electric energy requirements, does not substantiate the staff opinion relative to the alleged lack of conservation efforts on the part of lifeline domestic ratepayers who, like the nonlifeline and nonresidential customers of PG&E, are continually confronted with spiraling monthly utility billing costs.

With respect to the staff's reliance on the elasticity of demand study conducted by SDG&E for its residential customers, one has but to take notice of the distorted comparison between the total average system rates of SDG&E with those of PG&E (Table 6) in order to seriously question the value of such study insofar as being applicable to PG&E's residential customers. Moreover, with the introduction of the three-tier rate schedules, PG&E is now actively bringing forward to completion its elasticity of demand study relative to the utility's residential customers as initially ordered by Decision No. 91335, supra.

PG&E's proposed ECAC adjustment for the 12-month forecast period beginning August 1, 1980 was developed under ECAC tariff procedures currently in effect. The resulting reduced ECAC billing factors will offset an estimated increase in fuel costs of over $115 million and also reflect declining undercollections in the utility's ECAC balancing account which have been shown to be fully

justified for the August 1, 1980 forecast period. Under the circumstances, we have determined that PG&E's proposed ECAC adjustment should be adopted. A comparative analysis of the overall effect of the several ECAC rate spreads developed in this proceeding upon monthly billings is set forth in Appendix A attached hereto.

Findings of Fact

1. PG&E's ECAC billing factors were last adjusted to reflect increased energy-related expenses for the 12-month forecast period beginning with April 1, 1980, by Decision No. 91721, supra. The decision set PG&E's next ECAC revision date to be not earlier than August 1, 1980.

2. The established ECAC tariff procedures, as modified by interim Decision No. 91277, supra, were employed by PG&E for purposes of this proceeding. The utility's resulting estimated balancing account balances, projected resource mix based on the company's existing procurement strategy, and sales estimate are justified. Issues relating to reasonableness of ECAC recovery of particular energy-related expenses are deferred to the following ECAC filing.

3. PG&E's estimated increase in energy-related expenses for the 12-month forecast period beginning August 1, 1980 amounts to $115.3 million, including allowance for franchise taxes and uncollectibles. This translates to a uniform increase of 0.205¢/kWh in PG&E's ECAC fuel offset rate factor applicable to system sales.

4. PG&E estimates that its ECAC balancing account undercollected balance as of August 1, 1980 will amount to approximately $91 million. This represents a reduction of $194 million in this account from the balance reflected in the present ECAC balancing rate factors.

5. PG&E's proposed ECAC balancing rate factors are computed to amortize (pursuant to Decision No. 91277) the projected August 1, 1980 undercollected balance of $91 million over one-half of the kWh sales (28,417 millions) estimated for the 12-month forecast period.

6. Under the current level of PG&E's ECAC balancing rate factors effective April 29, 1980, total ECAC revenues of $278 million would be generated by one-half of the estimated kWh sales for the 12-month forecast period. This results in an overcollection of some $187 million ($278 minus $91 million) to be eliminated from the existing level of PG&E's ECAC balancing rate factors. To accomplish this objective, PG&E recommends a uniform reduction of 0.644¢/kWh, including allowances for franchise taxes and uncollectibles, from the present level of the utility's ECAC balancing rate factors.

7. PG&E's use of a six-month amortization period, in lieu of a 12-month period, to clear out the undercollections remaining in its ECAC balancing account as of August 1, 1980 results in substantial 1980 savings in interest costs for the company's ratepayers.

8. For the 12-month forecast period ending July 31, 1981, PG&E's ECAC rate proposal would decrease the utility's annual gross electric revenues by an estimated $261 million.

9. In order to generate the requested adjusted energy-related cost offset revenue requirements, PG&E proposes to adjust its present ECAC billing factors by the following amounts:

Class of Service	ECAC Billing Rate Factors		
	Fuel Offset	Balancing	Total Adjusted
		(¢/kWh)	
Residential			
Lifeline (Tier 1)	0.160	-0.518	-0.358
Nonlifeline (Tier 2)	0.220	-0.715	-0.495
Nonlifeline (Tier 3)	0.304	-0.986	-0.682
All Other Classes	0.205	-0.664	-0.459

10. PG&E's suggested overall decrease in the total adjusted ECAC billing rate factors for the utility's residential service is designed to maintain a differential of 38 percent between system lifeline (Tier 1) and nonlifeline (Tier 2) total average rates; and between the nonlifeline (Tier 2) and (Tier 3) total average rates as previously established in Decision No. 91721, supra.

11. PG&E employed an interdepartmental tariff Schedule No. G-55 natural gas rate of 4.50$/MBtu as a basis for computing the cost of its steam electric power generation for the August 1, 1980 forecast period. This agrees quite closely with the staff's estimate of 4.4663$/MBtu. Should a different Schedule No. G-55 gas rate be authorized pursuant to Application No. 59695, the resulting differential will be resolved through the medium of PG&E's ECAC balancing account.

12. The staff's proposed alternative ECAC adjustment, including the recommended abandonment of the three-tier rate structure in favor of a two-tier rate structure for PG&E's domestic service, is predicated upon general allegations which are unsubstantiated by competent factual data or otherwise not shown to be justified.

13. PG&E recommends the retention of the same basic rate design, including the three-tier rate structure for the residential class, established in the utility's last ECAC Decision No. 91721, supra. Adoption of PG&E's proposed ECAC adjustment would result in the following ECAC billing factors for the 12-month forecast period beginning August 1, 1980:

Class of Service	ECAC Billing Factors (¢/kWh) Present	Decrease	Proposed
Residential			
Tier 1	2.350	0.358	1.992
Tier 2	3.964	0.495	3.469
Tier 3	6.389	0.682	5.707
All Other Classes	4.063	0.459	3.604

14. The comparison of PG&E's total average system rates (Table 6) indicates that under the utility's proposed ECAC adjustment for the residential class, the Tier 2 (nonlifeline) rate is 38.0 percent above the Tier 1 (lifeline) rate; also the Tier 3 (nonlifeline) rate is 38.0 percent above the Tier 2 (nonlifeline) rate. The rate differential of 38.0 percent is within the Commission's present guidelines established by Decisions Nos. 91107 and 91316 in Application No. 58545 as further implemented by Decision No. 91721, supra.

15. PG&E's proposed ECAC adjustment was developed in accordance with existing ECAC tariff procedures. The utility's resulting adjusted ECAC billing factors are designed to offset, for the August 1, 1980 forecast period, estimated fuel cost increase of $115.3 million as well as an estimated undercollected ECAC balance of approximately $91 million.

16. The increases (decreases) in PG&E's proposed billing factors for the August 1, 1980 forecast period were developed through the implementation of projected estimates of energy-related expenses shown to be just and reasonable under the circumstances. To the extent such expense estimates may not coincide with the energy-related costs actually incurred during the forecast period, the utility may experience either an over- or undercollection of energy-related expenses which will accrue in the ECAC balancing account for disposition at subsequent ECAC proceedings.

17. Pursuant to staff review of certain unscheduled PG&E outages listed in Decision No. 91721, supra, it was determined that in no instance were such outages shown to be unreasonable. Under the circumstances the pending investigation should be terminated.

18. The rate increases authorized by the ensuing order herein are consistent with the President's Wage and Price Guidelines.

Conclusions of Law

1. PG&E should be authorized to establish the revised ECAC billing factors set forth in the following order; such rates have been determined to be fair, just, and reasonable for the 12-month forecast period beginning with August 1, 1980. To the extent subsequent review of balancing account entries results in changes to the ECAC balancing rates, any overcollection will be credited to the balancing account.

2. PG&E's next ECAC revision date established pursuant to Decision No. 91277, supra, shall not be earlier than December 1, 1980, and should be filed based on procedures last adopted in OII No. 56.

3. The following order should be made effective on the date of signature because PG&E's present ECAC billing factors are overcollecting the energy-related expenses the reduced rates are designed to offset.

O R D E R

IT IS ORDERED that:

1. Pacific Gas and Electric Company (PG&E) is authorized to establish and file revised tariff schedules of Energy Cost Adjustment Clause (ECAC) billing factors as follows:

Residential	
Lifeline (Tier 1)	1.992¢/kWh
Nonlifeline (Tier 2)	3.469¢/kWh
Nonlifeline (Tier 3)	5.707¢/kWh
All Other Schedules	3.604¢/kWh

2. Tariff schedules authorized by this order shall be filed not earlier than the effective date of this order and may be made effective not earlier than five days after the effective date of this order on not less than five days' notice to the Commission and to the public. Tariff schedules filed pursuant to this order shall comply with the provisions of General Order No. 96-A.

3. PG&E shall proceed expeditiously to complete the ongoing elasticity of demand and related studies pertaining to its domestic customers directed by Ordering Paragraph 2 of Decision No. 91335, dated February 13, 1980.

4. PG&E's ongoing coordinated study with the Commission staff and representatives for Toward Utility Rate Normalization relative to certain unscheduled outages as specified in the Opinion hereof is terminated.

5. The ECAC balancing account balance subject to this proceeding, as in the prior proceeding, is subject to further review with respect to the reasonableness of recorded expenditures.

The effective date of this order is the date hereof.
Dated SEP 16 1980, at San Francisco, California.

President

Commissioners

APPENDIX A

A.59694 /ALJ/bw

Pacific Gas and Electric Company
ENERGY COST ADJUSTMENT CLAUSE

Effect of Rates on Monthly Bills

Usage kWh	Present Bill $	Company $ Bill	Company $ Decrease	Company % Decrease	Uniform % Decrease $ Bill	Uniform % Decrease $ Decrease	Uniform % Decrease % Decrease	50% LL:NLL $ Bill	50% LL:NLL $ Decrease	50% LL:NLL % Decrease
50	$ 3.77	$ 3.59	$ 0.18	4.77%	$ 3.62	$ 0.15	3.98%	$ 3.70	$ 0.07	1.86%
100	5.79	5.43	.36	6.22	5.50	.29	5.01	5.64	.15	2.59
200	9.83	9.11	.72	7.32	9.25	.58	5.90	9.53	.30	3.05
240	11.45	10.59	.86	7.51	10.75	.70	6.11	11.09	.36	3.14
300	15.28	14.13	1.15	7.53	14.29	.99	6.48	15.12	.16	1.05
400	21.68	20.03	1.65	7.61	20.19	1.49	6.87	21.85	(.17)	(.78)
500	28.56	26.37	2.19	7.67	26.52	2.04	7.14	28.57	(.01)	(.04)
600	37.37	34.51	2.86	7.65	34.54	2.83	7.57	35.30	2.07	5.54
800	55.01	50.78	4.23	7.69	50.59	4.42	8.03	48.75	6.26	11.38
1,000	72.65	67.06	5.59	7.69	66.65	6.00	8.26	62.20	10.45	14.38
1,200	90.29	83.33	6.96	7.71	82.70	7.59	8.41	75.65	14.64	16.21
1,400	107.93	99.60	8.33	7.72	98.75	9.18	8.51	89.10	18.83	17.45
1,600	125.56	115.88	9.68	7.71	114.80	10.76	8.57	102.55	23.01	18.33
1,800	143.20	132.15	11.05	7.72	130.85	12.35	8.62	116.00	27.20	18.99
2,000	160.84	148.43	12.41	7.72	146.91	13.93	8.66	129.45	31.39	19.52
2,200	178.48	164.70	13.78	7.72	162.96	15.52	8.70	142.90	35.58	19.94
2,400	196.12	180.97	15.15	7.72	179.01	17.11	8.72	156.35	39.77	20.28

(Red Figure)