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Decision 93064 MAY 19 1981 ORIGINAL 11

BEFORE THE PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

Application of PACIFIC POWER & LIGHT COMPANY under Section 454 of the Public Utilities Code of the State of California for authority to increase rates for electric service.	Application 59948 (Filed September 18, 1980)

Leonard A. Girard, Attorney at Law (Oregon), for Pacific Power & Light Company, applicant.
Antone S. Bulich, Attorney at Law, for California Farm Bureau Federation, interested party.
Alvin S. Pak, Attorney at Law, and Francis S. Ferraro, for the Commission staff.

O P I N I O N

Pacific Power & Light Company (PP&L) applies for offset rate relief in the amount of $1,685,000. In this decision we award relief of $1,291,000, which is applied to existing rates on a uniform percentage basis.

Summary of Proceeding

PP&L received its most recent rate increase on November 18, 1980 (Decision (D.) 92411, Application (A.) 58605). Because complex issues of plant allocation delayed final relief in that proceeding, interim relief was awarded in February 1980 but final relief did not occur until November 1980 despite the fact that 1979 was the test year.

PP&L decided that, rather than further complicating the final submission and decision of A.58605, it would file this offset application while A.58605 was still pending. The filing was prompted by a December 20, 1979 increase in the hydroelectric purchased power rates of Bonneville Power Administration (BPA), plus the fact that for the A.58605 test year two items were included in rate base for only part of the year while, on a forward-looking basis, they should now be included on a full year.

PP&L has no oil-fired power plants and uses natural gas only for steam-heating purposes in Portland. Therefore, unlike other electric utilities we regulate, it does not have an energy cost adjustment clause (ECAC) as part of its filed tariffs in which to include the BPA increase.

Public hearings were held in Yreka on March 31, 1981 (afternoon and evening) and in San Francisco on April 2, 1981 before Administrative Law Judge (ALJ) Meaney. The proceeding was submitted at the close of the April 2 hearing.

Results of Operation

The following table summarizes the relief requested and the staff recommendation.1/

PACIFIC POWER & LIGHT COMPANY

Summary of Rate Relief Requested
1979 Estimated

	Adopted in D.92411	Increase Recommended Staff	Staff Recommended Results	Utility Requested Results
		(Dollars in Thousands)		
Operating Revenues	$24,741	$2,174	$26,915	$27,309
O&M Expenses and Taxes	16,015	1,284	17,299	17,531
Net Operating Revenue	8,726	890	9,616	9,778
Rate Base	86,483	8,818	95,301	95,301
Rate of Return	10.09%		10.09%	10.26%
Increase Over Present Rates			1,291	1,685

1/ All figures here and elsewhere in this decision are based on allocations found reasonable for California operations of PP&L in D.92411. PP&L operates in California, Montana, Oregon, Washington, Wyoming, and Idaho (although the Idaho system is separate). Note that the $2,174,000 increase recommended by the staff in Column 2 exceeds the recommended increase over present rates in Column 3 ($1,291,000). This is due to revenue from power which will be produced by Jim Bridger No. 4 and sold to the interstate power pool.

The company request was based on the rate of return for PP&L proposed by the utility for A.58605. Subsequent to issuing D.92411, PP&L reduced its request in this present proceeding to conform to the adopted rate of return in D.92411 (10.09%) resulting in total requested rate relief of $1,291,000. The staff, after investigating, agrees that the $1,291,000 figure is reasonable.

The three items necessitating the increase are as follows:

1. The previously mentioned BPA increase of approximately 11%. Under adopted PP&L allocation procedures, California's share of the increase is $371,000.

2. "Jim Bridger No. 4." The Jim Bridger Plant is coal-fired and located in Wyoming. PP&L owns two-thirds of it. The No. 4 unit was under construction at the time of A.58605 and D.92411 and was assumed for ratemaking purposes to be includable only for December 1979. PP&L proposes to annualize the unit for test year purposes. Allocated rate base addition for California is $7,123,000. The staff estimates that the gross revenue increase (California allocation) is $645,000.

3. Malin, Oregon to Medford, Oregon 500 kV line. Located entirely in Oregon, the line is an integral part of PP&L's interstate grid. In D.92411 it was included for only two test year months. As in the case of Jim Bridger No. 4, PP&L proposes to annualize the cost of the line. The California jurisdictional rate base share is $1,828,000, and the staff estimate of gross revenue attributable to the addition is $275,000.

The staff based its estimates on adopted results and procedures of D.92411. It then independently calculated revenues, expenses, and rate base changes resulting from the above three items. The staff report concludes that gross operating revenues of $26,915,000 are necessary, or $394,000 less than the utility's requested $27,309,000.

The difference is due almost entirely to the staff's use of the adopted rate of return in D.92411. The increase in gross revenue based on the staff's analysis is $1,291,000.

Certain Issues Reserved

D.92411 in A.58605 directed certain studies on weatherization and on the growth share method to be presented in PP&L's next general rate increase application. Counsel for California Farm Bureau Federation (Farm Bureau) sought to have these matters raised here. The ALJ ruled that this is not the "next general rate increase" proceeding as was meant in D.92411. As staff counsel pointed out, this present application was on file when D.92411 was issued. Had we intended those issues to be introduced in this application, we would have mentioned this proceeding by name and number. The ALJ's ruling is affirmed.

Public Witness Commentary

Approximately two dozen witnesses appeared at the afternoon Yreka hearing and about one dozen additional persons attended the evening hearing.

One witness who had studied the application and the exhibits questioned the use of 1979 estimated figures in a rate increase application which is to be submitted in 1981. Counsel for Farm Bureau also expressed concern over this.

The ALJ directed the staff to check 1980 recorded figures to determine whether, by any chance, less rate relief would be needed on such a basis. For twelve months ended September 30, 1980, recorded information on file with the Commission shows a California jurisdictional rate of return on rate base of 4.78%. Adjusted for flow-through taxes, the figure is 4.96% producing an estimated return on equity of 10.09%. Thus, recorded figures show that a considerable shortfall will occur even after rate relief requested herein is granted.

One public participant (with whom some others in the audience apparently agreed) stated that seasonal lifeline allowances are not set up correctly for Siskiyou County, and that they should be more like the Del Norte County allowances, since U.S. Weather Service statistics show the climates to be similar. We need more of a study to make this determination. We will order PP&L to investigate this and to report on the subject no later than its next rate increase application. If its investigation indicates an immediate change should be made, it may file an advice letter on the subject prior to its next rate increase

Public participants generally commented adversely on the need for rate increases over the last decade. This Commission has no more desire to award them than the public has to accept them. There is no long-range public benefit, however, to delaying rate increases when a utility submits the necessary proof that one is necessary. utility which is chronically unhealthy financially will be unable to attract needed capital for improvements and will eventually become an operational problem.

Another concern of two persons attending the hearing, and of Farm Bureau, was whether a rate increase granted on the traditional rate base allocation method would increase any problem relating to California's fair share of operating revenues. The answer to this question can only come at a time when we make our final determination as to the fairness of our present method and whether to continue it. It is true that in this proceeding there are two rate base additions and we are continuing our regular allocation methods. But as was exhaustively explained in D.92411, we cannot make a quick, simple judgment on how to resolve the problem. It is a matter of long-range study. Unilateral action on California's part at this time toward a more favorable allocation for itself might trigger similar action by other states, the total effect of which might be to make the utility the all-around loser, which, in turn, could ultimately damage the consumer by way of reduced service levels.

Rate Design

The chief issue in this application is the method of spreading the increase. PP&L proposed a straight uniform cents per kWh increase. The staff supports this type of spread, pointing out that we have adopted this approach in certain recent proceedings. (Pacific Gas and Electric Co., D.92656 dated February 4, 1981 in A.59902, and San Diego Gas & Electric Co., D.92557 dated December 30, 1980 in A.59788.)

Farm Bureau objects to this spread and proposes a uniform percentage method. Counsel for Farm Bureau argued that the agricultural pumping schedule was assigned more than the system average spread in the recently concluded PP&L general rate increase application (A.58605, D.92411 dated November 18, 1980). Thus by applying a uniform cents per kWh approach, the amount which agricultural customers must pay compared to those customers absorbing only the system average is, according to Farm Bureau, exaggerated.

Farm Bureau argues here, as it did in A.58605, that agricultural producers in California's five northern counties compete primarily in the Oregon market, not in the California market, that Oregon agricultural power rates are lower, and that further increases above the system average will worsen the competitive situation. Also, because of the major restructuring of the agricultural rates in A.58605, the long-term effects of the increases may not be fully understood.

A review of A.58605 shows that, as a class, agricultural pumping was ultimately awarded the system average increase of 34.7% and that a 40% figure mentioned in D.92411 (slip opinion, p. 56) referred to the original PP&L request based on PP&L's recommendation for rate of return. The 34.7% is an average, and individual customers may actually pay more or less. Even 34.7% is, of course, a sizable increase.

The staff developed a table, from which the following is adopted, which shows the effect of awarding the increase on a uniform percentage rather than a uniform cents per kWh basis.

Pacific Power & Light Company

DISTRIBUTION OF PROPOSED RATE INCREASE
BASED ON 1977 HISTORICAL SALES

Item	Average No. of Customers	Sales MkWh	Revenue at Pres. Rates 2/	Alternate I: Prop. Incr. by Unif. ¢/kWh				Alternate II: Prop. Increase by Uniform %			
				Revenues	Incr.	¢/kWh	%	Revenues	Increase	¢/kWh	%
	(A)	(B)	(C)	(D)	(E)	(F)	(G)	(H)	(I)	(J)	(K)
			($ in Thousands)					($ in Thousands)			
Residential	22,868	311,193	$10,476	$11,086	610	.196	5.8	$11,076	$ 600	.193	5.7
Small Power	4,911	106,398	4,832	5,040	208	.196	4.3	5,109	277	.260	5.7
Large Power	85	103,757	2,922	3,125	203	.196	6.9	3,089	167	.161	5.7
Partial Requirements and Water Heating	280	20,126	581	620	39	.196	6.7	614	33	.164	5.7
Agricultural	398	61,590	1,583	1,709	121	.196	7.6	1,679	91	.148	5.7
USBR 3/	190	14,999	164	173	9	.063	5.7	173	9	.063	5.7
Lighting (Private)	3,065	4,645	334	343	9	.196	2.7	353	19	.409	5.7
Public Street Lighting	58	3,845	187	195	8	.196	4.3	198	11	.286	5.7
Contracts	3	-	5	5	-	-	-	5	-	-	-
Total	31,858	625,553	21,088	22,295 1/	1,207	.193	5.7	22,296 1/	1,207	.193	5.7

1/ Equivalent to staff-recommended 1979 revenue of $23,935,000.
2/ Rates authorized by D.92411, November 18, 1980.
3/ Overall increase inputed to USBR before spreading remaining increase to other classes.

Additionally, the staff prepared the following table which illustrates the difference between average increases per customer per month using each suggested method.

Pacific Power & Light Company

Customer Impact of Two Methods
Of Rate Increase Spread

Customer Class	Present Average Rate ¢/kWh	Average Increase $ per Customer per Month			Present Average Bill
		*Alt I	**Alt II	Difference I - II	
Private Lighting	7.19	0.24	0.52	(0.28)	$ 9.08
Public Lighting	4.86	11.49	15.80	(4.31)	268.70
Small Power	4.54	3.53	4.70	(1.17)	81.99
Residential	3.37	2.22	2.19	.03	38.18
Partial Requirement and Water Heating	2.89	11.61	9.82	1.79	172.92
Large Power	2.82	199.02	163.73	35.29	2865.00
Agricultural	2.58	25.34	19.05	6.28	332.50
Total System	3.37	3.15	3.15	0	55.16

(Red Figure)

* Alternate I - Uniform ¢/kWh

** Alternate II - Uniform %

These tables show that either method is within the range of reasonableness. The residential class receives virtually the same increase either way.

We choose to follow Farm Bureau's uniform percentage recommendation in this particular instance. Counsel for Farm Bureau is (as stated previously) in error when he states that the agricultural rates were increased more than the system average in A.58605. However, the testimony of some public witnesses in this proceeding indicates that the service area is generally not prosperous at this time and that agriculture is the main industry. In A.58605 witnesses testified that agriculture in the area competes primarily in the Oregon and not the California market. While PP&L's agricultural pumping rates are low (as are their rates generally) compared to other California utilities, they are higher than comparable rate schedules in Oregon.

Farm Bureau should not assume that this sets a precedent for future rate hold-downs regarding PP&L's agricultural electric service. In this particular case we find it reasonable because of economic factors.

The only additional rate design question is whether a surcharge tariff as proposed by PP&L should be adopted. We agree with the staff that this is not desirable because the customer should be presented with the total rate under one schedule rather than having to consult two separate schedules.

The lifeline/nonlifeline ratio should remain the same as before the increase applies. (See, however, our previous comment on seasonal allowances under the section of this opinion discussing public comments.)

Findings of Fact

1. On December 20, 1979 BPA increased its hydroelectric purchased power rate by approximately 11%. California's jurisdictional share of the increase is $371,000 annually.

2. The Jim Bridger No. 4 unit is now operational and has been since December of 1979.

3. The Malin, Oregon to Medford, Oregon 500 kV line is an integral part of PP&L's interstate grid and has been operational since November 1979.

4. On the basis of the test year in A.58605, it is reasonable to include, on an annual basis, the 11% BPA rate increase and to annualize the rate base items mentioned in Findings 2 and 3.

5. Based on PP&L's adopted rate of return on D.92411, the additional California jurisdictional revenue needed as a result of these adjustments to the test year is $1,291,000.

6. It is reasonable, for this application, to spread the increase on a uniform percentage basis.

Conclusions of Law

1. Based upon the test year in A.58605 and the record in this proceeding, PP&L should be granted additional annual California jurisdictional revenue in the amount of $1,291,000.

2. The increase should be spread to rates on a uniform percentage basis.

3. Because the 1979 estimated California rate of return for PP&L is 8% and the recorded rate of return through September 30, 1980 is 4.96%, we conclude that the effective date of this order should be the date it is signed, to afford PP&L rate relief without further delay.

O R D E R

IT IS ORDERED that:

1. After the effective date of this order, Pacific Power & Light Company (PP&L) may file with this Commission rates and tariffs which increase its California jurisdictional revenue by $1,291,000 based upon the adopted test year and rate of return found reasonable in A.59948. Its filing shall comply with General Order Series 96.

2. The rate increases shall be spread to rates on a uniform percentage basis.

3. The effective date of the rates authorized in Ordering Paragraph 1 shall be 4 days after the date of filing. The revised schedules shall apply only to service rendered on and after their effective date.

4. PP&L shall investigate whether seasonal lifeline allowances for Siskiyou County should be changed. PP&L shall either make a recommendation in its next general rate increase application, or by advice letter filing.

This order is effective today.

Dated MAY 19 1981, at San Francisco, California.

John E. Bryson
President
Richard D. Gravelle
Leonard M. Grimes, Jr.
Victor Calvo
Priscilla C. Grew
Commissioners