ORIGINAL

Decision 93196 JUN 16 1981

BEFORE THE PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

Application of PACIFIC GAS AND ELECTRIC COMPANY For Authority To Increase Its Electric Rates And Charges Effective April 1, 1981, In Cost Adjustment Clause As Modified By Decision No. 92496.	Application 60225 (Filed January 30, 1981)

(See Appendix A for appearances.)

O P I N I O N

By this application Pacific Gas and Electric Company (PG&E) requests authority to increase its electric rates under the Energy cost Adjustment Clause (ECAC) in its tariff. The proposed rates will increase PG&E's electric revenue by $176.4 million for a four-month period, or $529.2 million annually.

Three days of public hearings were held before Administrative Law Judge Kenneth K Henderson. This proceeding was submitted on April 15, 1981, upon the filing of briefs.

I. Issues and Summary

The two ultimate issues presented in this proceeding are: (1) the revenue requirement and (2) rate design.

The contested sub-issues to be determined in reaching an adopted revenue requirement are:

1. Estimated cost of natural gas (G-55 rate for electric generation).
2. Balancing account balance.
3. Amortization period of the balancing account balance.

Process #9

This increase is necessary primarily to make PG&E whole for energy production expense already incurred; existing rates did not cover PG&E's expenses because fossil fuel prices escalated higher than last estimated. Also, this summer will not have runoff and hydroelectric power available in great quantities, necessitating gas or oil-fired steam generation. This increase only makes PG&E whole for its costs; it does not contribute to PG&E's profits.

Regarding rate design, the proceeding produced two sharply different rate design proposals. PG&E proposed to design a rate structure based on a marginal cost methodology. The other proposal was to maintain our recent practice of spreading any increase on an equal cents-per-kilowatt-hour (¢/kWh) basis to the various customer classes.

This decision grants a revenue increase of $118,091,000 for a four-month period based on an adopted cost of natural gas of $4.2938/million Btu, which contrasts with PG&E's estimate of $5.00/ million Btu. We also adopt a balancing revenue requirement of $95,937,000 as of March 31, 1981, to be amortized over four months.

We have continued our practice of spreading the increase on an equal ¢/kWh basis rather than adopting the marginal cost methodology proposed by PG&E.

II. Revenue Requirement

A. Cost of Natural Gas (G-55 Rate)

PG&E originally estimated the cost of natural gas to be $5.25/million Btu, but later revised its estimate to $5.00/million Btu based upon its Application (A.) 60263, a concurrent Gas Adjustment Clause (GAC) proceeding.

The staff calculated its estimated revenue requirement based on the current cost of gas of $4.146/million Btu. All other parties who took a position on this issue supported the staff estimate. However, all parties, including PG&E, advocated use of the G-55 rate which is adopted in A.60263.

Today we are issuing a decision in A.60263 which provides a G-55 rate of 4.2938/million Btu. This price is adopted as the estimated cost of natural gas for this proceeding.

B. Balancing Account Balance

PG&E provided a revised estimate of the balancing revenue requirement of $96,203,000 for the March 31, 1981 balance: The staff recommends that this figure be reduced by $263,784, which represents a claimed interest allowance related to changes in the value of fuel oil in storage which are the subject of Decision (D.) 92496.

Both PG&E and the staff agree that D.92496 dated December 5, 1980 allowed changes in the value of oil in storage corresponding to changes in price to be recovered in ECAC and that these costs may be calculated from the utilities' most recent general rate case.

PG&E has construed the word "value" to include interest. PG&E calculated these costs as if they had been a part of the balancing account since January 1, 1980, the effective date of PG&E's last general rate case decision. Therefore, PG&E added an amount reflecting interest to the fuel oil adjustment.

The staff argues, on the other hand, that the utilities were allowed a one-time adjustment for past carrying costs and that the carrying costs related to changes in the value of fuel oil in storage are to be balancing account items from December 5, 1980 forward.

We have recently decided this issue in D.92930 dated April 21, 1981 in A.60161 of San Diego Gas & Electric Company. In that decision we clarified our intent regarding D.92496 by allowing the interest allowance computed from the date of the last general rate case. This allowance will also be given to PG&E. Although the balancing account balance and resulting rates are calculated as if the allowance were not included, PG&E will be allowed to recover the interest allowance in its balancing account for the next ECAC proceeding.

C. Amortization Period

PG&E proposes that the balancing account balance be amortized over a four-month period. PG&E argues that the four-month amoritization period is consistent with triannual ECAC filings. PG&E also states that a four-month period will tend to reduce the balancing account to a minimum amount, which, in turn, will allow ECAC rates to more accurately reflect changes in the prices of purchased energy, thus giving consumers proper price signals. PG&E acknowledges that a shorter amortization period may contribute to a relatively larger fluctuation in rates than if a longer period were adopted. The staff agrees that a four-month amortization period should be used.

California Manufacturers Association (CMA) and Toward Utility Rate Normalization (TURN) supported by General Motors Corporation (GM) make a very compelling argument for the use of a longer amortization period. CMA and GM suggest a 12-month period, while TURN suggests either a six-month period, or preferably, a 12-month period. CMA argues that recent reforms to the ECAC procedure, such as revision date estimated prices and balancing account balance, together with triannual ECAC filings, provide sufficient protection from over/undercollection problems. TURN and CMA contend that short amortization periods contribute significantly to rate fluctuations. Also, rate fluctuations serve to give consumers confusing price signals regarding the trend in energy prices, which is counter to our energy conservation goals. TURN advocates that we once again pursue "rate stabilization" as one of our primary goals.

Rate stability has been and remains one of our most important policies. It is also our policy that the balancing account be kept as close to zero as possible. As can be easily seen in this case, these policies sometimes conflict. When they do conflict, we balance the benefits of each policy and exercise our judgment to arrive at a proper course of action. In this case we will adopt a four-month amortization period in order to minimize the balancing account. Undercollection exposes ratepayers to considerable interest cost on the balance, and causes cash-flow difficulty for the electric utility. Also, rates should primarily fluctuate with changes in fuel prices or energy mix, and not because of clearing the balancing account of over- or undercollection.

Hypothetically, if the record in this case had developed a May 31, 1981 balancing account balance, a six-month amortization period would have been appealing. If we make an educated estimate that the May 31, 1981 balance is $150 million, then a six-month amortization period would produce a balancing revenue requirement of $100 million, which is very close to the adopted balancing requirement of $95.9 million which we have adopted using a four-month period.

The remaining estimates of PG&E regarding sales, prices, and adjustments are uncontested, reasonable, and will be adopted. The following tables show the calculation of the revenue requirement based on our resolution of the various issues discussed in this order.

Class of Service	April 1, 1981 - July 31, 1981 Revenue (Dollars in Thousands)	Percent
Residential:		
Lifeline	$ 18,044	13.04
Nonlifeline	20,019	12.95
Residential Subtotal	38,063	12.99
Small Light and Power	10,038	10.07
Medium Light and Power	27,115	11.60
Large Light and Power	29,409	13.03
Public Authority	795	12.62
Agricultural	11,250	12.11
Street Lighting	880	7.03
Railway	502	14.37
Interdepartmental	209	11.91
Total Jurisdictional	$121,638	12.55

ENERGY COST ADJUSTMENT CLAUSE
CALCULATION OF ESTIMATED COST
OF FUEL AND PURCHASED ENERGY
AND OFFSET REVENUE REQUIREMENT

Revision Date: April 1, 1981
Forecast Period: Four Months Beginning April 1, 1981

Line No.	Item	Billions of Btu or Gwh	$/Millions of Btu or Mills/kWh	Cost In Thousands
	Steam Plants			
1	Gas	77,408	4.2938	$332,374
2	Oil-Residual	19,639	5.35805	105,227
3	Oil-Distillate	769	5.60598	4,311
4	Subtotal	97,816	-	441,901
5	Geothermal Steam Plants	1,933	27.86	53,853
6	Nuclear Steam Plants	-	-	-
7	Purchased Electric Energy	6,477	16.38	106,093
8	Pre-operative Generation	-	-	-
9	Oil Inventory Cost Adjustment	-	-	519
10	Current Cost of Fuel & Purchased Energy	-	-	602,366
11	Less: Adjustment for Sales to California Department of Water Resources	-	-	1,822
12	Subtotal	-	-	600,544
13	Allocation to CPUC Jurisdictional Sales (L.12 x .9561)	-	-	574,180
14	Adjustments for Franchise and Uncollectible Accounts Expense (L.13 x 0.00781)	-	-	4,484
15	Total ECAC Offset Revenue Requirements	-	-	578,664
16	ECAC Offset Revenue at Present Rates	-	-	556,510
17	Change in ECAC Offset Revenue Requirement (L.15-16)	-	-	22,154
18	Total ECAC Balancing Revenue Requirement (4-Month Amortization)	-	-	95,937
19	Total Change in Revenue Requirement	-	-	118,091

III. Rate Design

The rate design issues raised in this proceeding were much more heavily contested than issues regarding the revenue requirement. The cause of the controversy was, for ECAC proceedings, a new and interesting rate design proposal by PG&E based upon application of marginal cost concepts. The PG&E proposal was supported by TURN.

The staff proposed a rate design based upon the current Commission policy of spreading any ECAC increase on an equal ¢/kWh to all customer classes. CMA proposed essentially the same procedure with some variation within the residential customer class.

A. PG&E Proposal

The PG&E rate design uses the marginal energy, generation, and transmission costs for all schedules. PG&E then compared the total current effective rates (Base + ECAC) to the marginal cost of each class. In calculating the current rates by each class for comparison purposes, it used the average class rate except for the residential class. For the residential class, PG&E used only the third-tier rate on the basis that no rate should be above the marginal costs, which could be the result if the average residential rate were used for calculating the difference from the marginal cost. PG&E then derived the Tier II and Tier I rates using the current 38% differential at the current usage levels for each of the tiers.

B. Other Parties

The other parties, most notably CMA and the California Retailers Association (CRA), take exception to the PG&E proposal on several grounds.

At base, CMA objects to the use of marginal costs to set rates. However, if marginal costs are going to be used to establish rates, CMA, CRA, et al. are still in strong opposition to the PG&E proposal.

CMA and CRA disagree with the concept of comparing marginal costs to total effective rates for the purpose of adjusting ECAC rates in an ECAC proceeding. They also argue that if marginal costs are to be used to compare rates with costs, then the marginal costs should not only include marginal energy, transmission, and distribution costs but also marginal customer and demand costs as well.

Even if the Commission were to endorse the basic policy and methodology of PG&E, then CMA and CRA disagree over the calculation of the specific marginal costs applicable to each class. Also, they disagree with the application of the methodology, as proposed by PG&E, to the residential class. CMA and CRA argue that in comparing residential rates to its marginal costs the average residential rate should be used rather than the third-tier rate.

C. Alternate CMA Proposal

As an alternative to the PG&E proposal, CMA proposes that the increase be spread among the various customer classes based on the equal ¢/kWh but that the relationship of rates within the residential class be modified. CMA suggests that the third-tier residential rate be "capped" equal to marginal costs and that the 38% differential between tiers be modified so that Tier I and Tier II could make up any revenue deficiency of the residential class.

Discussion

For this proceeding we will adopt the equal ¢/kWh method to spread the increase among the customer classes. We will also maintain the 38% differential between the tiers within the residential class. The results are illustrated in the following table.

Revision Date: April 1, 1981
Forecasted Period: Four Months Beginning April 1, 1981

Item	Million of kWh	Thousands of Dollars	Rate Per kWh of Sales
Adjustment Increase Applicable to System Sales	18,118	118,091	.006518
Adjustment Increase Applicable to Nonresidential Sales	12,304	80,197	.006518
Adjustment Increase Applicable to Lifeline (Tier I) Sales	3,438	17,878	.00520
Adjustment Increase Applicable to Nonlifeline (Tier II) Residential Sales at 38% above the Tier I Increase	1,300	9,334	.00718
Adjustment Increase Applicable to Nonlifeline (Tier III) Residential Sales at 38% above the Tier II Increase	1,076	10,682	.00993
Total Residential Sales	5,814	37,894	.006518

Our adoption of the equal ¢/kWh method is in no way to be construed as a rejection of the PG&E marginal cost method. In fact, PG&E is to be highly commended for offering a proposal that recognizes that desirable use of marginal costs in establishing rates. PG&E has correctly interpreted our prior decisions in that we will entertain different methods of rate spread other than the equal ¢/kWh method in ECAC proceedings when conditions warrant a change.

In this case the record was insufficiently developed for us to consider and decide the myriad of relevant issues raised by CMA and CRA. We hope that PG&E will consider the objections of CMA and CRA and submit a similar proposal in future ECAC proceedings. We also expect that the outcome of PG&E's current general rate case will produce firmer guidelines and a broader consensus regarding rate design to be applied between general rate cases.

IV. Base Rate Adjustment

One issue which was raised only by TURN concerned the implementation of D.92496 regarding the conversion of variable wheeling expenses and the cost of sales in excess of purchases to the Department of Water Resources (DWR), or losses from base rate expense items to ECAC expense items. PG&E developed an adjustment factor of .006¢/kWh, which was derived by calculating the wheeling and DWR factors separately rather than as a single base rate reduction. The two factors should be considered together, which produces a reduction factor of .007¢. The effect is to reduce base rates for all customer classes by .001¢/kWh below the figures calculated by PG&E.

Findings of Fact

1. By A.60225 PG&E requests authority to increase its electric rates and charges under the ECAC included in PG&E's electric tariff.

2. The proposed rates will increase PG&E's electric revenues by $176.4 million for a four-month period or $529.2 million annually.

3. A four-month period to amortize the balancing account balance will minimize undercollection.

4. The balancing account balance of $95.9 million is a reasonable estimate as of March 31, 1981.

5. The price of natural gas (G-55 rate) is 4.2938/million Btu.

6. The sales and cost estimates of PG&E not discussed within this opinion are reasonable and are adopted for ratemaking purposes.

7. An increase of rates to produce increased revenue of $118,091,000 for a four-month period or 354,273,000 annually is justified and reasonable.

8. The equal ¢/kWh method is reasonable for spreading the increased revenue requirement among customer classes.

9. The balancing account balance for the next PG&E ECAC proceeding should include an allowance for interest on the carrying charges related to changes in the value of fuel oil in storage for the period January 1, 1980 to December 5, 1980.

10. Base rates should be adjusted to reflect the combined computation of wheeling cost factors and DWR's cost factors.

11. The increase in rates and charges authorized by this decision is justified and reasonable.

12. Because of the substantial undercollection, there is an immediate need for rate relief. Therefore, the effective date of this order should be the date of signature.

Conclusion of Law

PG&E should be authorized to establish the revised rates set forth in the following order, which are just and reasonable.

A.60225 ALJ/jn

O R D E R

IT IS ORDERED that Pacific Gas and Electric Company is authorized to establish and file with this Commission in conformity with the provisions of General Order 96-A, revised tariff schedules of base rates and Energy Cost Adjustment Clause billing factors as shown in Appendix B, and to revise its street lighting rates accordingly. The revised tariff schedules shall become effective not earlier than five days after filing. The revised schedules shall apply only to service rendered on or after the effective date of this order.

This order is effective today.

Dated JUN 16 1981, at San Francisco, California.

President

Commissioners

APPENDIX A

LIST OF APPEARANCES

Applicant: Robert Ohlbach, by Bernard J. Della Santa, Attorney at Law, for Pacific Gas and Electric Company.

Interested Parties: Brobeck, Phleger & Harrison, by Gordon E. Davis, William H. Booth, and James J. Addams, Attorneys at Law, for California Manufacturers Association; Allen R. Crown and Glen J. Sullivan, Attorneys at Law, for California Farm Bureau Federation; Michel Peter Florio, Attorney at Law, for Toward Utility Rate Normalization (TURN); William B. Hancock, for Cut Utility Rates Today (CURT); Johnson, Greve, Clifford & Diepenbrock, by Tom Knox, Attorney at Law, for California Retailers Association; Lynn Myers, for Southern California Edison Company; George P. Agnost, City Attorney, by Leonard Snaider, Deputy City Attorney, for the City and County of San Francisco; Downey, Brand, Seymour & Rohwer, by Philip A. Stohr, Attorney at Law, for General Motors Corporation; Harry K. Winters, for University of California; Allen B. Wagner, Attorney at Law, for The Regents of the University of California; and Jeanine Hull, Attorney at Law, for the California Energy Commission.

Commission Staff. Timothy E. Treacy, Attorney at Law, and John E. Johnson.

APPENDIX B

Class of Service	Present Rates $/kWh			Adopted Rates $/kWh			
	Base Rates (A)	ECAC Rates (B)	Effective Rates (C) (A)+(B)	Base Rates (C)	ECAC Increase (D)	ECAC Rate (E) (D)+(B)	Effective Rate (F) (C)+(E)
Residential					.006518		
Tier I	.02257	.01261	.03512	.02256	.0052	.01781	.04037
Tier II	.02257	.03604	.05855	.02256	.00718	.04322	.06578
Tier III	.02257	.05831	.08082	.02256	.00993	.06824	.0908
Nonresidential		.03275			.006518		