PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

COMMISSION ADVISORY AND COMPLIANCE DIVISION

RESOLUTION E-3442
MARCH 13, 1996

R E S O L U T I O N

RESOLUTION E-3442. PACIFIC GAS AND ELECTRIC COMPANY REQUESTS A THREE YEAR EXTENSION TO SCHEDULE ED--EXPERIMENTAL ECONOMIC DEVELOPMENT RATE AND TO REDEFINE BASE DEMAND UNDER THAT SCHEDULE TO MAKE IT AVAILABLE TO CUSTOMERS WITH SEASONAL LOAD VARIATIONS.

BY ADVICE LETTER 1543-E, FILED ON NOVEMBER 2, 1995.

SUMMARY

By Advice Letter 1543-E, filed November 2, 1996, Pacific Gas and Electric Company (PG&E) requests that its economic development rate, Schedule ED, be extended for three years and that base demand be redefined as a seasonal average.

Toward Utility Rate Normalization (TURN) protested PG&E's request to extend the Economic Development Program because of an inadequate showing of the program's success and because TURN believes economic development discounts should be partially shareholder financed.

This resolution grants PG&E's request because the program has created jobs in economic development zones and added new load to the system, thereby reducing rates for all ratepayers. In addition, it notifies PG&E that the Commission will be examining shareholder participation for economic development discounts in the future and that up to 100 percent shareholder participation may be required after January 1, 1998.

BACKGROUND

Public Utilities Code Section 740.4 requires the Commission to authorize public utilities to engage in economic development programs to encourage job growth in economically disadvantaged areas. According to the code, the authorized economic development programs can be ratepayer funded to the extent that ratepayers benefit. In Decision 89-12-057, the Commission authorized PG&E to establish a 3 year declining electric discount (15%, 10%, 5%) for new firms, or firms expanding operations, in enterprise zones and economic incentive areas (Scheduled ED). The discounts cannot be used for existing California load, and customers are required to maintain a minimum of 200kW net new load per month in order to be eligible. Schedule ED expired on December 31, 1995. The expired program was ratepayer funded, but limited to 60 MW total load or 100 participants, whichever was reached first. Discounts under

Schedule ED were limited to ensure that the rate exceeds PG&E's marginal cost of service.

In Advice Letter 1543-E, PG&E requests changes in its economic development rate (Schedule ED--Experimental Economic Development Rate and Standard form 79-771--Supplemental Agreement for Economic Development Discount Electric Service). PG&E proposes to 1) extend the economic development program for an additional three years and 2) redefine base demand, used to determine what load qualifies for the discount, as a seasonal average rather than an annual average.

The proposed extension will overlap with the implementation of Electric Restructuring. Decision 95-12-063 as modified by D.96-01-009 continues the existing guidelines for funding requests of economic development programs. Electric Restructuring can affect the funding of economic development programs by changing the benefits that accrue to ratepayers from these programs. In addition, D.95-12-063 as modified by D.96-01-009 encourages the legislature to consider modifying current economic development program funding.

NOTICE

Notice of Advice Letter 1543-E was made by publication in the Commission's calendar, and by mailing copies of the filing to adjacent utilities and interested parties.

PROTESTS

On November 22, 1995, Toward Utility Rate Normalization (TURN) protested PG&E's request to extend the Economic Development Program on two grounds. First, TURN believes PG&E should make a more detailed showing in support of the program. The protest specifically requests information on the amount of program capacity filled to date and reasons why there has not been greater use of the program.

Second, TURN requests shareholder participation in the cost of the discounts. TURN believes the standards set in PG&E's rate design window proceeding (D.95-10-033) should be applied to economic development programs. These standards provide that shareholders are responsible for: 35 percent of Business Attraction discounts and 50 percent of Business Retention and Expansion discounts. TURN states the distinctions between the rate design window discount options and the economic development program do not warrant any different treatment of shareholder responsibility for a portion of the discount.

On December 1, 1995, PG&E responded to TURN's protest by supplying information on the economic development program, and arguing that there are substantial differences between economic development discounts and business attraction discounts. PG&E has shown that 12 customers are currently served under Schedule ED. Four are new facilities and eight are expansions of existing facilities. These companies created 1303 net new jobs and added approximately 30 MW of new load subject to Schedule ED. PG&E anticipates five firms locating in economic development zones if Schedule ED is extended. These five firms estimate they will create 365 new jobs.

PG&E states Schedule ED is not substantially the same as the rate design window contracts TURN references. Schedule ED was created in response to legislative mandate. It has greater flexibility with regard to customer size and business activity and can be used in conjunction with a much broader range of otherwise applicable tariffs. In addition, PG&E argues that Schedule ED is legislatively mandated as ratepayer funded. PG&E stated, Schedule ED rates exceed marginal cost. Therefore, Schedule ED benefits all ratepayers, because revenues that exceed marginal cost provide a contribution to fixed costs, reducing rates for all ratepayers. In support PG&E quotes D.92-11-052 Conclusion of Law 3 "Discounts to prevent uneconomic bypass can attract or retain incremental load which would otherwise be lost, and thus help to keep other rates down."

DISCUSSION

This advice letter raises four issues: 1) did PG&E file sufficient information to justify extending the economic development program, 2) should shareholders fund some of the discount for the current program, 3) should the definition of base demand be revised from an annual to a seasonal basis, and 4) how will electric restructuring (D.96-01-009) affect this program.

In response to TURN's Protest, PG&E filed information on the performance of its economic development program. It has helped create 1303 jobs and add about 30 MW of new load to the system. With the additional information supplied by PG&E, it is now possible to evaluate PG&E's economic development program. The part of TURN's protest dealing with inadequate information is denied. The purpose of the program is to encourage new firms to locate in economically depressed areas and thereby create jobs. This has occurred. Sufficient evidence exists to justify extending the program.

TURN, in its protest, requested that shareholders immediately participate in funding economic development discounts. Similarity with other discount programs notwithstanding, economic development programs are ratepayer funded to the extent ratepayers benefit from the program [P.U. Code Section 740.4(g)]. By adding new load at rates above the marginal cost, the economic development discount spreads ratepayer fixed cost over a larger base, reducing the cost to any one ratepayer. The declining nature of the discount results in new load paying the full tariff rate after three years. CACD recommends the economic development discount be extended without requiring shareholder participation. The part of TURN's protest dealing with shareholder participation is denied.

PG&E also requested that base demand be redefined as a seasonal average, rather than an annual average. No protests were received on this point. Under Schedule ED, firms with seasonal variations could usually receive discounts on load added in the peak season. On the other hand, load added in the off-season often did not exceed the base demand, calculated using an annual average, and so did not qualify for a discount. By calculating base demand on a seasonal basis, firms can receive discounts if they increase their off-season load without adding to peak season loads. CACD believes it is a reasonable change and recommends it be adopted.

Although CACD believes economic development discounts benefit ratepayers under the current regulatory environment, it is concerned that ratepayer benefit from these discounts maybe diminished or eliminated after electric restructuring is implemented. At that time generation and distribution services will be charged separately. Customers of PG&E's monopoly distribution services should not have to finance any of the cost of encouraging new load for PG&E's competitive generation services. On the other hand, economic development discounts may still be appropriate if tied to distribution rates and marginal costs.

CACD, therefore, recommends extending the discounts on the condition that they be subject to revision or shareholder participation after electric restructuring is implemented. The Commission has not fully reviewed this issue and cannot determine the appropriate level of shareholder participation that may be required, but PG&E's shareholders should be prepared to fund 100 percent of economic development discounts after restructuring is implemented.

FINDINGS

1. PG&E filed advice letter 1543-E on November 2, 1995, requesting a three year extension to Schedule ED and Standard Form 79-771 and redefining base demand under that schedule.

2. On November 22, 1995, TURN protested the advice letter requesting further information on the program and shareholder participation in funding the discounts.

3. On December 1, 1995, PG&E responded to the protest and provided additional information substantiating the success of the program.

4. PG&E's economic development program has helped create 1303 jobs and add 30 MW of new load at rates above marginal cost.

5. TURN's protest should be denied because PG&E filed adequate information to evaluate the program and because ratepayer funding is authorized by Public Utilities Code Section 740.4.

6. By increasing load at rates above marginal cost, PG&E's economic development program reduces the rates of all ratepayers.

7. When electric restructuring takes place the benefit to ratepayers of PG&E's economic development program may be diminished, necessitating ratepayer funding be reduced or eliminated.

8. Redefining base demand on a seasonal basis will more closely track actual changes in load of firms with seasonal load variations.

THEREFORE, IT IS ORDERED that:

1. Pacific Gas and Electric Company's advice letter 1543-E is approved subject to future shareholder funding of discounts if ordered by this Commission. Pacific Gas and Electric is hereby noticed that shareholders may be required to fund the economic development discounts, contained in any contract filed pursuant to Schedule ED, for load delivered after electric restructuring is implemented.

2. TURN's protest is denied.

3. This resolution is effective today.

I hereby certify that this Resolution was adopted by the Public Utilities Commission at its regular meeting on March 13, 1996. The following Commissioners approved it:

Wesley Franklin

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