PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

COMMISSION ADVISORY AND
COMPLIANCE DIVISION
Energy Branch

RESOLUTION E-3329
June 23, 1993

R E S O L U T I O N

RESOLUTION E-3329. PACIFIC GAS AND ELECTRIC COMPANY REQUESTS TO IMPLEMENT ITS ECONOMIC STIMULUS RATE, EFFECTIVE JULY 1, 1993. PACIFIC GAS AND ELECTRIC COMPANY PROPOSES TO REDUCE RATES TO CUSTOMERS WITH DEMAND GREATER THAN 999 KW, SERVED UNDER RATE SCHEDULES E-20 AND A-RTP, BY $0.004 PER KWH FOR A PERIOD OF EIGHTEEN MONTHS.

BY ADVICE LETTER 1435-E, FILED ON MAY 12, 1993.

SUMMARY

1. Pacific Gas and Electric Company (PG&E) filed Advice Letter (AL) 1435-E on May 12, 1993. The purpose of this advice letter is to seek approval to implement its economic stimulus rate. Effective July 1, 1993, PG&E proposes to reduce rates to customers with demands greater than 999 kilowatts served under rate schedules E-20 and A-RTP. PG&E proposes to reduce revenues by $100 million over an 18 month period for its customers by reducing the usage rate by $0.004 per kilowatt-hour. PG&E proposes to absorb the revenue loss associated with this temporary rate reduction through corporate cost reductions and efficiencies, rather than through increased rates to other customer classes. To the extent that PG&E cannot find ways to offset the anticipated revenue loss through internal measures, PG&E will absorb the impact through a reduction in earnings. The Division of Ratepayer Advocates (DRA) filed comments and suggested modifications on the advice letter. Towards Utility Rate Normalization (TURN) filed a limited protest on the advice letter. In addition, the California Large Energy Consumer Association (CLECA) filed a letter that supported PG&E's advice letter.

2. This resolution grants PG&E request for authorization to implement its economic stimulus rate.

BACKGROUND

1. On April 13, 1993, PG&E announced its proposal to reduce rates to major customers by $100 million. This reduction is part of PG&E's 1994 Electric Rate Initiative, which also includes a proposed freeze of retail electric rates through

1994. PG&E is proposing this rate reduction in an effort to do its part to improve the ailing California economy. The customers that would receive the reduction include many of California's largest employers as well as energy-intensive companies for which electricity costs can be a major factor in production, employment, plant construction and expansion decisions.

2. PG&E believes that rate reductions to these large customers will help to stimulate business activities in the state.

3. PG&E proposes to make the rate reduction effective July 1, 1993, with termination of the reduction effective December 31, 1994. As 1994 progresses, PG&E will carefully consider the overall economic situation in California, as well as its own cost situation, and may propose an extension beyond the end of 1994 if PG&E believes that conditions warrant such action. However, as currently structured, the rate reduction will automatically expire on December 31, 1994.

4. The rate reduction described in PG&E's advice letter is in addition to both the retail electric rate freeze announced by PG&E on April 13, 1993, and the proposal to return to ratepayers any labor cost savings associated with PG&E work force reduction outlined in PG&E's Application No. 93-02-047.

5. PG&E proposes to absorb the revenue loss associated with this temporary rate reduction through corporate cost reductions and efficiencies, rather than through increased rates to other customer classes. To the extent that PG&E cannot find ways to offset the anticipated revenue loss through internal measures, PG&E will absorb the impact through a reduction in earnings.

6. To this end, PG&E proposes that its otherwise-authorized annual Base Revenue Amount be temporarily reduced by $66.7 million on an annual basis from July 1, 1994 to December 31, 1994, for a total of $100 million over the 18 month period. This reduction in the annual Base Revenue Amount is intended to ensure that other customer groups are shielded from the "costs" associated with the proposed rate reduction. In other words, no other customers' rates would increase as a result of the proposed targeted rate reduction.

7. There are no rate increases involved in this filing, nor will it result in withdrawal of any service or conflict with other schedules or rules.

NOTICE

1. Public notification of AL 1435-E has been made by PG&E through mailing copies of the advice letter to other utilities, government agencies, and to all interested parties who requested such information. Notice of the advice letter was published in the Commission Calendar.

PROTESTS

DRA

1. On May 28, 1993, DRA filed its comments and suggested modifications to PG&E's AL 1435-E.

2. With certain conditions and modification, DRA supports PG&E's AL 1435-E. DRA recommends that in approving PG&E's advice letter, the Commission also recognize that this industrial rate reduction is in addition to other reductions that may flow to <u>all customers</u> from other petitions and applications which have already been filed at the Commission.

3. In addition to the labor force reduction (A.93-02-047) referred to by PG&E in its advice letter filing, DRA named four other matters that could change rates when they come before the Commission for decision:

   a) PG&E filed A.93-05-009 to reduce its authorized rate of return as part of the Commission's annual financial attrition process.

   b) A joint petition was filed by DRA, TURN, CLECA and the Federal Executive Agency (FEA) on January 25, 1993, to modify PG&E's recent general rate case decision (D.92-12-057). The petition requests that the Commission reduce rates by about $50 million to reflect prevailing market rates for employee compensation.

   c) On May 5, 1993, DRA, TURN, CLECA and FEA filed a joint petition to suspend attrition for PG&E.

   d) PG&E recommended deferral of the current balancing account undercollection in its annual ECAC Application (A. 93-04-028).

4. DRA requests that these matters be judged solely on their merits, and not be prejudged by the disposition of this advice letter.

5. In its comments DRA also urged the Commission to suspend the attrition mechanism for PG&E.

6. On June 8, 1993, PG&E responded to DRA's comments on A.L. 1435-E.

7. Regarding DRA's request for clarification that PG&E's proposed Economic Stimulus Rate would be separate from other recent action taken by the company, PG&E states that:

   - PG&E believes that its advice letter clearly stated that the rate reduction would be financed through corporate cost reductions and efficiencies and if necessary, a reduction in earnings.

8. In responding to DRA's request that the Commission consider a suspension of PG&E's attrition mechanism, PG&E stated that:

- DRA's proposal is well outside the area addressed by PG&E's advice letter. Furthermore, the issue is already pending before the Commission in an application (sic) filed by the DRA along with Toward Utility Rate Normalization, the California Large Energy Consumer Association, and the Federal Executive Agencies.

TURN

9. On June 1, 1993, TURN filed a limited protest on PG&E's AL 1435-E. While TURN does not seek to prevent this rate reduction, it wished to express its concerns regarding the future treatment of this rate reduction.

10. TURN does not agree with the assumptions underlying PG&E's filing that the goal of stimulating business activity is best served by providing electric rate reductions to only the utility's largest customers. All of PG&E's electric customers are suffering because of the impact of the utility's high electric rates, and all would benefit from a rate reduction aimed at their particular class or schedule.

11. TURN is very interested in knowing the basis, if any, relied upon by PG&E in reaching the conclusion that a rate reduction targeted at the largest industrial customers would best serve the interests of California's economy and stimulate the greatest amount of business activity in the state. A rate reduction targeted at small commercial customers would appear at least as likely to promote job growth in the state, as it is in this sector that the greater employment opportunities lie. Furthermore, TURN suggested the Commission may wish to take note of the findings of the "California Industry Migration Study" prepared by Bules & Associates in October 1992 for PG&E, along with the other largest California energy utilities. According to that study, the cost of energy in California is relatively low on the list of factors contributing to a manufacturing customer's decision whether or not to keep a plant open or to expand an existing plant site in California.

12. TURN feels that a rate reduction targeted at small commercial customers would appear at least as likely to promote job growth in the state, as it is in this sector that the greater employment growth opportunity lie.

13. Setting aside its concerns about the proposed rate reduction's likelihood of achieving its stated purposes, TURN has misgivings about what may be expected to happen in 1995. PG&E characterizes this rate reduction proposal as being part of its 1994 Electric Rate Initiative, whereby the utility intends to freeze electric rates for all of its customers through 1994. One of PG&E's strategies for effecting this rate freeze is the deferment of the revenue increase which would otherwise result from the 1993 ECAC proceeding. Thus, rather than being added to rates on January 1, 1994, this increase, plus some amount of

interest, will be added to rates on January 1, 1995. When combined with the rate increase resulting from the 1994 ECAC proceeding, also scheduled to go into effect on January 1, 1995, all customers stand to see a rather large increase in their future rates as a result of the current rate freeze.

14. Because of PG&E's proposed rate reduction for E-20 and A-RTP customers, those classes will face an even greater increase in their rates on January 1, 1995. The large industrial customers who received the proposed rate reduction will see their rates go up on that date by an additional $0.004 per kwh above and beyond the ECAC-based rate adjustment for 1994 and 1995. However, this additional increase for the select few customers who will have benefited the most from PG&E's current largesse must not be considered when allocating the increase resulting from the two year ECAC adjustment. Unless these customers bear their full EPMC based share of the 1994 and 1995 revenue increase, PG&E's claim that "no other customer's rate would rise as a result of the proposed targeted rate reduction" will not be true, and all other customers will be directly subsidizing the select few whom PG&E seeks to elevate to the status of linchpins and saviors of California's economy. Therefore, TURN suggests that the Commission should make it clear to PG&E that the additional $0.004 per kwh increase will not be considered when allocating revenues on an EPMC basis at that time.

15. On June 8, 1993, PG&E responded to TURN's limited protest.

16. In response to TURN's request for the basis of PG&E's conclusion that a rate reduction targeted at the largest industrial customers would best serve the interest of California's economy and stimulate the greatest amount of business activity in the state, PG&E stated that:

- Although the majority of jobs created are from small and medium businesses, such businesses typically are not as energy-intensive as large manufacturing businesses, so that energy costs are not a major factor in their location and employment decisions. Additionally, large businesses are more likely to be unionized and provide higher paying jobs than small businesses.

- Job retention, in addition to job growth, is an objective of the proposed Economic Stimulus Rate Credit. Large businesses tend to be more mobile than small businesses. This is reported in a study conducted by Bules and Associates ("California Industry Migration Study") in which it is found that within the last decade over 1000 manufacturing firms have expanded or relocated out of California.

17. Regarding TURN's statement that the Commission may wish to take note of the findings of the "California Industry Migration Study" prepared by Bules & Associates in October 1992 for PG&E, along with the other largest California energy utilities.

According to that study, the cost of energy in California is relatively low on the list of factors contributing to a manufacturing customer's decision whether or not to keep a plant open or to expand an existing plant site in California. PG&E stated that:

- This citation does not indicate that it is better to target small businesses over large businesses, but merely that energy costs can be low on a list of factors large businesses consider. For the reasons stated above, it is better to target large businesses for the Economic Stimulus Rate Credit rather than small businesses.

18. In relationship to TURN's request that the Commission not consider the effect of the Economic Stimulus Rate Credit when calculating the Equal Percentage Marginal Cost base revenues allocated at the end of PG&E's rate freeze, PG&E stated that:

- PG&E believes this matter is currently not at issue. EPMC-based revenue allocation should be considered at the end of the rate freeze.

CLECA

19. On June 1, 1993, CLECA presented a letter strongly supporting PG&E's AL 1435-E. CLECA is comprised of large, energy-intensive manufacturing firms which purchase electric power at high voltages and load factors, and pursuant to interruptible tariffs. For CLECA members, the cost of electric energy is a very significant part (20% to 25%) of the total cost of production. When energy rates are high, as they currently are in California, it becomes very difficult to compete with firms which operate outside the state and import their products to California markets. CLECA believes that PG&E's proposal to reduce the rates of its largest customers by $100 million over the next 18 months, while not representing a "cure-all" for the state's economic ills, will make a significant impact on the level of competitiveness of northern California's electric rates.

DISCUSSION

1. PG&E is authorized to file new tariff sheets to decrease its rates in General Order 96-A, Section V.A.. PG&E's request is a voluntary decrease that will not withdraw any service or conflict with any other schedule or rule.

2. Neither DRA nor TURN object to PG&E's request to decrease its rates for its large users.

3. DRA's two concerns are that the applications that will affect PG&E's electric rates during the next eighteen months are not prejudged or in anyway affected by PG&E's voluntary decrease of its rates for its largest electric customers, and that the Commission consider suspension of PG&E's attrition mechanism.

4. In relation to DRA's request that PG&E's application not be prejudged in any way by PG&E's voluntary decrease of its rates for its largest customers, PG&E's advice letter requested no special treatment for itself or for its large energy users, nor would an advice letter be the proper forum to request it.

5. Any application that affects PG&E's electric rate during the next eighteen months will not be prejudged or in any way be affected by PG&E's voluntary decrease of its rates for its largest electric customers. In addition, all of PG&E's customers will be required to shoulder their full share of any rate changes between now and the termination of PG&E's Economic Stimulus Rate.

6. DRA also urged the Commission to suspend the attrition mechanism for PG&E.

7. PG&E takes exception with DRA's request as being outside the area addressed by this advice letter.

8. CACD concurs that the suspension of PG&E's attrition mechanism is not an issue in this advice letter, and will be determined in a different proceeding.

9. TURN's primary concern is that PG&E's other ratepayers not subsidize PG&E's large electricity users when the economic stimulus rate terminates.

10. While PG&E has indicated that it "believes that this matter is currently not at issue", PG&E had stated that "no other customer's rate would rise as a result of the proposed targeted rate reduction." CACD concurs that the Commission needs to ensure that PG&E's other customers are not adversely affected by PG&E's voluntary rate reduction to its largest customers.

11. Therefore, to hold PG&E's other customers indifferent to PG&E's Economic Stimulus Rate on December 31, 1994, when PG&E's Economic Stimulus Rate terminates, PG&E's cost allocation to its large customers will include not only the removal of the Economic Stimulus Rate, but also their full share of any rate increase.

12. PG&E's proposal is to reduce its otherwise-authorized annual Base Revenue Amount by $66.7 million for eighteen months. This amount is flowed through to all PG&E customers in its ERAM proceeding. Which means that if PG&E's estimates are inaccurate, PG&E's other customers will have to make up the difference. If PG&E overestimated the Economic Stimulus Rate Credit, PG&E's other customers would have to make up the under collection of revenues. On the other hand, if PG&E underestimated the Economic Stimulus Rate Credit, PG&E's other customers would receive a discount from the overcollection of revenues.

13. To ensure that PG&E's other customers are not adversely affected by PG&E's voluntary rate reduction to its largest customers, PG&E will be required to track the cost savings

associated with its Economic Stimulus Rate, and any overage or underage of the proposed $100 million credit will be allocated to PG&E's customers with a maximum demand above 999 kilowatts served under PG&E Rate Schedule E-20 and A-RTP.

14. PG&E, in its advice letter, is attempting to respond to California's need for lower energy rate. PG&E should be commended for its efforts to decrease its rates and lower costs to its customers.

FINDINGS

1. PG&E is authorized to file new tariff sheets to decrease its rates in General Order 96-A, Section V.A..

2. PG&E's proposal will decrease PG&E's annual Base Revenue amount by $66.7 million on July 1, 1993. On January 1, 1995, PG&E will increase its annual Base Revenue amount by $66.7 million.

3. Neither DRA nor TURN object to PG&E's request to decrease its rates for its large users.

4. By this advice letter, PG&E is not seeking any prejudgement or special treatment in any other proceeding currently before the Commission. In addition, costs associated with any rate change before the Commission will be fully allocated to all customers classes.

5. The suspension of PG&E's attrition mechanism is not an issue in this advice letter, and will be determined in a different proceeding.

6. On December 31, 1994, when PG&E's Economic Stimulus Rate terminates, PG&E's E-20/A-RTP customers will be allocated their full share of all increases/decreases, and in addition will have their rates increased by the amount of the economic stimulus rate.

7. To ensure that PG&E's other customers are not adversely affected by PG&E's voluntary rate reduction to its largest customers, the cost reduction from PG&E's economic stimulus rate will be tracked and any overage or underage will be allocated to PG&E's E-20/A-RTP customers in their 1995 rates.

THEREFORE, IT IS ORDERED that:

1. Pacific Gas and Electric Company's economic stimulus rate shall go into effect on July 1, 1993, with termination of the reduction effective December 31, 1994.

2. To ensure that PG&E's other ratepayers are not adversely affected by PG&E's Economic Stimulus Rate, PG&E shall:

   A. allocate to all of its customers their full share of any rate changes determined by this Commission; and,

   B. track the revenue reduction associated with its Economic Stimulus Rate, and any overage or underage of the proposed $100 million credit will be allocated to PG&E's customers with a maximum demand above 999 kilowatts served under PG&E Rate Schedule E-20 and A-RTP.

3. Advice Letter 1435-E shall be marked to show that it was approved by Commission Resolution E-3329.

4. This resolution is effective today.

I hereby certify that this Resolution was adopted by the Public Utilities Commission at its regular meeting on June 23, 1993. The following Commissioners approved it:

Neal J. Shulman
Executive Director

DANIEL Wm. FESSLER
President
PATRICIA M. ECKERT
NORMAN D. SHUMWAY
P. GREGORY CONLON
Commissioners