

Decision No. 54384**ORIGINAL**

BEFORE THE PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

In the Matter of the Application of)
 Southern California Edison Company)
 for authority to establish a new)
 system-wide underground schedule, to) Application No. 37665
 be known as Schedule U, applicable) (Amended)
 to a new type of service under cer-)
 tain conditions.)

Bruce Renwick, Rollin E. Woodbury, John Bury
 by Rollin E. Woodbury, for applicant.
Wahlfred Jacobson by Leslie E. Still and Henry E.
 Jordan, for City of Long Beach, protestant.
Jack O. Sanders, for City of Los Angeles; Walter B.
 Chaffee, for City of Fullerton; John R. Lautz,
 for California Electric Power Company; and
W. D. MacKay (Commercial Utility Service), for
 Challenge Cream and Butter Assn.; interested
 parties.
L. S. Patterson, for the Commission staff.

O P I N I O NApplicant's Request

Southern California Edison Company, a California corporation, engaged in the public utility business of generating, transmitting and distributing electric energy in portions of central and southern California, filed the above-entitled application on January 17, 1956, and later filed an amendment to conform to proof on November 1, 1956, requesting authority to make effective a proposed new Schedule U, entitled "Rate Surcharges for Service from Designated Underground Distribution Systems". The purpose of the proposed new schedule is to establish rates for a new class of service where applicant may be required to furnish service from underground distribution systems installed at its expense, but not required for its operating convenience. A revised copy of the

proposed new Schedule U, which applicant desires to make a part of its regularly filed rate schedules, is attached to its amendment to application and is marked Exhibit "A".

Reason for Schedule

Applicant lists the following reasons for proposing this schedule:

1. From time to time in the past certain customers, or their representatives, have indicated a desire that service be rendered by the utility through required underground facilities under conditions where they would not otherwise be built by the applicant. Applicant is of the opinion that in the past such indicated desires have resulted from a lack of appreciation, on the part of those requesting such underground service, of the cost involved in providing such service and of the necessary effect thereof upon rates, and that, if its customers were adequately informed of the economic facts involved, in most such instances requests for underground service would not be made.
2. Any attempt to provide such service without charging the fair, just and reasonable rates required thereby to certain customers would, in applicant's opinion, result in the establishment of unreasonable differences as to rates, charges, service and facilities, and would constitute an undesirable and prohibited preferential treatment.
3. Where underground distribution systems are required by legislative action, lawfully exercised, the proposed rate would require the customers served from such system to pay fair, just and reasonable rates.

Public Hearing

After due notice to state, city and county officials and the public, public hearing was held upon this application before Commissioner Rex Hardy and Examiner M. W. Edwards in Los Angeles on August 15 and October 24, 1956. Applicant, through three witnesses, presented seven exhibits and testimony in support of its application. The City of Long Beach, through counsel and a representative, appeared as a protestant and took an active part in the proceeding by cross-examination of witnesses and has filed

a statement of its position on November 21, 1956. The Commission staff, represented by an electrical engineer, also took an active part in the proceeding and cross-examined witnesses for the purpose of fully developing a record to aid the Commission in deciding this matter. The Cities of Los Angeles and Fullerton and other parties exhibited interest in the proceeding.

Overhead and Underground Service

The rate schedules of applicant, now on file and in effect, only are applicable for service supplied through:

1. Overhead distribution facilities,
2. Underground distribution facilities where such facilities are provided for the utility's operating convenience, or
3. Underground distribution facilities where such facilities are provided in accordance with the provisions of the underground extension rule.

Under certain physical conditions, such as well developed built-up urban areas, underground distribution systems may be more feasible for the utility to install, operate, and maintain than are overhead distribution systems. For such reasons, applicant states it has furnished underground distribution systems in some areas for its operating convenience with service at the same rates as from an overhead system. In other areas, underground service has been furnished where the customer, or a person requesting underground service, has paid the difference in cost between the underground system and an equivalent overhead system. Under this latter condition applicant's investment in the system is equivalent to that in an overhead system and the same rates are applied as for service from an overhead system.

Additional Cost of Underground Facilities

Applicant's computations indicate that the ratio of the cost of underground plant to overhead plant is 7.3 to 1.0 on the average. Based on plant records for the system as a whole, underground conduit was determined to be 11.9 times as costly as

poles per mile of line, underground conductors 9.5 times as costly per mile, line transformers 1.5 times as costly and underground services 7.0 times as costly. Weighing of these ratios as shown in Exhibit No. 3 yields the 7.3 figure.

The next step was to determine the fixed annual cost of the additional investment of 6.3 times overhead cost by multiplying by a 16.0 percent ^{1/} annual rate. There results an annual factor of 1.01, or a monthly factor of approximately 0.08, that when applied to the rate base for the various customer groups yields additional monthly revenue requirements. The basic figures of the computations contained in Exhibit No. 3 are:

	<u>Customer Groups</u>		
	<u>Domestic</u>	<u>Lighting to Small Power</u>	<u>Large Power on Distribution</u>
Rate Base	\$68,636,000	\$33,320,000	\$42,648,000
Additional Monthly Revenue Required (@ 0.08)	5,491,000	2,666,000	3,412,000
Above Amount Allocated to Cost Components:			
Commodity	1,389,000	979,000	1,935,000
Demand	1,494,000	855,000	1,225,000
Customer	2,608,000	832,000	252,000
Unit Additional Monthly Revenue Required:			
Commodity - per kwhr	0.76¢	0.75¢	0.72¢
Demand - per kwhr	0.82¢	0.65¢	-
Demand - per kw of Billing Demand	-	-	\$1.53
Customer - per Customer	\$2.42	\$5.30	\$49.50

<u>1/</u> Ad Valorem Taxes	2.5%
Depreciation	3.0
Income Taxes	4.5
Return	6.0
Total	<u>16.0</u>

In the event that applicant's entire overhead facilities were replaced by underground facilities the above tabulation shows the need for a total additional monthly revenue requirement of \$11,569,000 from the three customer groups.

Development of Rate Surcharges

Applicant allocated this additional revenue requirement to rate schedules based on a consideration of each of the cost-analysis customer groups. For example, the additional monthly revenue requirement for the domestic customer group is \$5,491,000. Such additional revenue may be collected as a charge per kwhr, or as a charge per customer, or as a combination of the two. Applicant's cost analysis indicated a commodity and demand charge total of 1.58 cents per kwhr and a customer charge of \$2.42. However, applicant desired to keep the kwhr surcharge low in order to avoid restriction on residential use of electricity and suggested that a higher amount be obtained from the customer surcharge. Its final proposal is for a 0.5 cent per kwhr surcharge plus a \$4.25 monthly customer charge.

For the lighting and small power group the cost analysis indicated a commodity and demand charge total of 1.40 cents per kwhr and a customer charge of \$5.30. Applicant proposed a surcharge of 1.0 cents per kwhr plus an \$8.00 monthly customer charge except for Schedules P-1 and H where the surcharge would be 0.5 cents per kwhr plus \$1.20 per hp or per kw of connected load plus a customer charge of \$8.00.

For large power on distribution the cost analysis indicated a commodity charge of 0.72 cents per kwhr, a demand charge of \$1.53 per kw of billing demand, and a customer charge of \$49.50. Applicant proposed a surcharge of 0.5 cents per kwhr, plus a demand surcharge of \$1.70 per kw of billing demand, plus a customer charge of \$8.00.

Rate Surcharge Hypothetical Revenue

For the domestic Schedules D-1, D-2, D-3, D-4, D-5, D-6 and DM-A applicant computed the following hypothetical additional revenue if all present customers were receiving service from an underground system:

182,000,000 kwhr at 0.5¢ per kwhr	\$ 910,000
1,078,000 customers at \$4.25 per month	<u>4,582,000</u>
Domestic total surcharge	\$5,492,000

For the lighting and small power customers on rate Schedules A-1, A-2, A-3, A-4, A-5, A-6 and DM-B (A-1 to 6):

101,700,000 kwhr at 1.0¢ per kwhr	\$1,017,000
124,500 customers at \$8.00 per month	<u>996,000</u>
Total lighting and sm. pr.	\$2,013,000

For small power customers on Schedules P-1 and H:

29,100,000 kwhr at 0.5¢ per kwhr	\$146,000
329,100 hp or kw at \$1.20 per hp or kw	<u>395,000</u>
32,600 customers at \$8.00 per month	<u>261,000</u>
Total small power	\$802,000

For street lighting customers on Schedule LS-2:

5,100,000 kwhr at 0.5¢ per kwhr	\$26,000
11,900 kw at \$1.20 per kw	<u>14,000</u>
700 customers at \$8.00 per month	<u>6,000</u>
Total street lighting	\$46,000

For large power on distribution Schedules P-2, DM-B (A-7) and A-7 on distribution:

269,800,000 kwhr at 0.5¢ per kwhr	\$1,349,000
795,000 kw at \$1.70 per kw	<u>1,352,000</u>
5,100 customers at \$8.00 per month	<u>41,000</u>
Total large power on distr.	\$2,742,000

Total hypothetical additional revenue	\$11,095,000
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Applicant made no adjustment for sales from existing underground systems since such information was not readily available, but was satisfied to make rate surcharge proposals as above which would yield \$474,000 per month less on a hypothetical basis than that indicated by its cost computations.

Position of City of Long Beach

The City of Long Beach contended that the applicant has in no way sustained the burden of proof and that there was no evidence of a convincing nature that the establishment of proposed Schedule U would be in the public interest or is necessitated by financial distress of applicant. The city argues that the chief purpose of such a schedule of rates is to act as a deterrent to the lawful exercise of legislative authority, and states that the entire basis for this request appears to have been some ill-advised action by the city council of a single city, which action was duly corrected by democratic processes.

The city points out that applicant's investment in its underground facilities is approximately two percent of its total plant investment and the assumption, for computation purposes, that all of the present overhead distribution facilities existing in the year 1955 be replaced by underground facilities approaches the ridiculous. It is reasonable, the city states, to presume that the annual increase in applicant's plant investment for additional underground facilities to meet situations for the health, welfare and safety of the public through the lawful exercise of legislative action, — which seems to unduly alarm applicant, — would be a small fraction of the present investment in underground facilities, and would, therefore, be a minute and infinitesimal burden on applicant's system-wide consumers; and further, if applicant felt such underground installation was for its operating convenience it would probably act, as it has done in so many instances, without waiting for legislative action.

Examples of increases in monthly bills for domestic customers ranging from 72 percent to 118 percent, depending on monthly usage, by the operation of proposed Schedule U, were cited

by the city. It states that this does not represent the maximum increase that might burden one or more customers. Where underground installations are required by Civil Aeronautics Authority rules, as new airports and heliports are established, the city states that many customers of the applicant may be required, through no desire of their own, to pay the premium rates proposed under Schedule U.

The city also pointed out that there is no pending demand by legislative action for underground installations by applicant, that no other utility has special schedules or rates to compensate for the added cost of underground facilities, that there was no time limit as to how long the surcharge rate would be applied, that the customers required to pay the extra charge may not receive any benefit from it and that rates are not made for individual customers based on the investment to serve the individual and that the applicant's rate of return varies with each class of customers. It is the city's position that applicant's Rule No. 31 (now Rule No. 15) which provides that one or more customers may obtain underground service by paying the additional cost gives ample protection to the applicant where the individual customer or groups of customers demand underground installations. In summary of its position, Long Beach contends that this proposal is contrary to the public interest and requests that it be denied.

Findings and Conclusions

The Commission has carefully considered the position taken by the City of Long Beach in this proceeding and is appreciative of the time and effort spent by the city representatives in analyzing the proposed schedule and pointing out features that they consider to be objectionable. However, after analyzing the record in this proceeding the Commission finds merit in the applicant's proposal and will authorize a special underground

schedule, but will require the maintaining of certain records that will guard against discrimination in operation of the schedule. The Commission foresees a real advantage in having such a schedule, even though there may presently be no customers on it, and the authorities which may require the applicant to install underground at applicant's expense will be properly advised ahead of time as to the rate effect of such action.

While the system-wide proportion of investment for underground service by applicant is small compared to the total investment for overhead service, there is such a marked increase in per customer investment and cost that a surcharge appears warranted when the utility is forced to install underground systems where an overhead system would be practical. A fundamental consideration in rate making is that each customer should pay a reasonable share of the cost of rendering the service, but because of the large number of customers involved, individual rates are impractical and the Commission has established class rates based on the usage of the average customer in each class. Once having established a class rate, however, the rate is applied to each customer individually in the class.

The applicant's proposed surcharges are predicated on average conditions and are segregated by classes. In designing the proposed surcharges, schedule by schedule, applicant used its judgment and took into account additional factors beside cost, more or less, as the Commission would do in prescribing rate levels. Pending further experience with this schedule the rates will be authorized at the levels suggested by applicant.

At the time applicant seeks to establish an underground distribution area in which the surcharges would apply, it must file with the Commission a rate area description under the procedure

of General Order No. 96, and at that time it will be required to notify all customers whose billing would be affected thereby.

An increase in density or growth in an area may change the situation from one in which the underground is required by "legislative action" to one of "company's operating convenience". The proposed schedule does not provide a method to determine this change and provide for discontinuance of the surcharge. In order to evaluate the applicability of this schedule applicant will be required to maintain records of its customers served by such underground facilities showing:

1. Names of customers or groups of customers
2. Address or location
3. Cost of underground system
4. Estimated cost of equivalent overhead system
5. Date of installation
6. Estimated life of facilities
7. Rate schedules being applied
8. Total annual revenue and revenue from surcharge received from service to such installations
9. The reason why a surcharge is being applied
10. Customer density in the area

The Commission finds that public convenience and necessity require the filing by applicant of a Schedule U, substantially as proposed, designated "Rate Surcharges for Service from Designated Underground Distribution Systems", and that any increases in rates or charges resulting from customers being served in the future by underground facilities installed at the expense of the applicant and not for applicant's operating convenience, are fair and reasonable.

O R D E R

The Southern California Edison Company having applied to this Commission for authority to make effective a proposed new Schedule U, entitled "Rate Surcharges for Service from Designated Underground Distribution Systems", that may result in increases in

rates and charges, a public hearing having been held, the matter having been submitted and now being ready for decision; therefore,

IT IS HEREBY ORDERED that applicant is authorized to file in quadruplicate with this Commission, after the effective date of this order, in conformity with General Order No. 96, a schedule of rates substantially equivalent to that set forth in Exhibit "A", attached to the amendment to application filed November 1, 1955. Said schedule of rates will become effective after not less than five days' notice to this Commission and to the public.

IT IS FURTHER ORDERED that applicant shall maintain records of customers receiving service under the aforesaid schedule, as described in the opinion part of the decision.

The effective date of this order shall be twenty days after the date hereof.

Dated at San Francisco, California, this 15th day of JANUARY, 1957.

[Signature]
President
[Signature]
[Signature]

Commissioners

Commissioner Matthew J. Dooley, being necessarily absent, did not participate in the disposition of this proceeding.