

Decision No. 76106

ORIGINAL

BEFORE THE PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

In the Matter of the Application of }
SOUTHERN CALIFORNIA EDISON COMPANY }
for an order of the Public Utilities }
Commission of the State of }
California authorizing Applicant to }
increase rates charged by it for }
electric service. }

Application No. 50363
(Filed July 1, 1968)

(Appearances are listed in Appendix A)

O P I N I O N

The applicant Southern California Edison Company (hereinafter sometimes called Edison) filed its application for authority to increase its rates for electric service on July 1, 1968. The proposed changes in rate schedules subject to this Commission's jurisdiction according to the application would produce in 1969 an estimated increase in gross annual revenue of approximately \$60 million and a rate of return of about 7.60% on a depreciated book cost rate base.

Altogether 48 days of hearing were held before Commissioner Symons and/or Examiner Cline, of which 46 days were in Los Angeles and one day each in Visalia and San Bernardino. Some 94 exhibits were introduced into evidence, and there were 5,446 pages of transcript. Concurrent opening briefs were filed May 26, 1969, concurrent answering briefs on June 23, 1969, and the closing brief by Edison on July 3, 1969, at which time the matter was taken under submission.

The following issues have been raised by the parties and require resolution by the Commission:

- I. What level should the Commission authorize for Edison's rate of return?
 - II. Should the Commission authorize rates which will provide a reasonable rate of return on total system operations or rates which will provide a reasonable rate of return only on California jurisdictional operations?
 - III. What are the proper methods of allocating costs and rate base between jurisdictions?
 - IV. Should the Commission authorize rates which will produce no more than a 6% rate of return on the net investment of Edison in hydroelectric facilities licensed to Edison under the Federal Power Act?
 - V. Which of the differing estimates of revenues, expenses, rate base and resulting rates of return should be adopted as reasonable?
 - VI. How should the effect of the Federal Income Tax Surcharge be reflected in rates?
 - VII. What are the additional revenue requirements of Edison?
 - VIII. Should the agricultural and pumping group be given lesser increases in rates than those proposed by Edison?
 - IX. Since any increase in the cost of street lighting will be paid for through an increase in taxes, should any such increase be borne by the ratepayer in the lighted area rather than through an increase in the rates for street lighting?
 - X. Should the increases in rates for large power services, those provided the A-7 customers, be less than those proposed by Edison?
 - XI. What findings and conclusions should be made by the Commission?
- I. What level should the Commission authorize for Edison's rate of return?

Edison's position is that it is entitled to a 7.60% rate of return on its entire rate base, based upon the calculated

composite cost of capital for 1969 of 7.60%. This computation of the cost of money and return on equity is set forth on page 46 of Exhibit No. 68 as follows:

	<u>Ratio</u>		<u>Rate</u>		<u>Total</u>
Long-Term Debt	54.5	x	4.85	=	2.64
Preferred Stock	7.0	x	5.06	=	.35
Convertible Preference					
Stock	2.8	x	5.33	=	.15
Equity	35.7	x	12.50	=	4.46
					7.60

Edison has pointed out that in its 1957 Decision No. 55703 this Commission recognized a need for a rate of return greater than 11.5% on equity when the record showed an average return of 11.35% on equity predicated on the average earnings of 48 of the largest electric public utilities in the United States. Tables 9 and 11 of Exhibit No. 1 in this proceeding show that the average return on common equity of 36 of the largest electric utilities midyear in 1967 had increased to 13.11%. Furthermore, according to Edison's most recent estimates the rates proposed in the application will now provide revenue increases of about \$60.4 million based on estimated 1969 sales which would produce only about 7.45% return on rate base and about 12% on common equity. In Edison's calculation of the cost of money the imbedded cost of debt may be understated in view of the further rise in interest rates since Edison's January 1969 debt issue at a cost of 7.13%. The further rise in interest rates is reflected in the rise in the prime rate to 7.5% in March 1969, the increase in the rediscount rate to 6% in April 1969 and a 7.547% cost of the recent \$80 million debt issue (April 9, 1969) of Aa rated Pacific Gas and Electric Company bonds. Even if interest rates do not increase the imbedded

cost of bonds will rise with the sale of new bonds at current rates of interest and the redemption of earlier issues previously sold at lower rates of interest.

The staff financial witness testified that in his opinion a rate of return of 7.0% to 7.3% on the rate base subject to the jurisdiction of the Commission would be reasonable. This range for rate of return was translated into specific rates by the Utilities Division staff witness through the use of an assumed midpoint rate of return of 7.15%. The increased revenue requirements based on the staff's estimate of revenues, expenses and rate base of \$2,290,759,000 for 1969 are \$32,688,000. A return in the range of 7.0% to 7.3% on the basis of the staff's estimates would necessitate additional revenue requirements of \$32.5 million to \$49.2 million based on the staff's total rate base estimate of \$2,430,700,000. On the same rate base the staff's estimated rate of return under present rates for 1969 is 6.42%.

Edison's estimated rate of return under present rates for 1969 based on its own total rate base estimate of \$2,432,000,000 is 6.36%. According to Edison's estimates the additional revenue requirements for rates of return in the range between 7.0% and 7.3% overall on the foregoing rate base would be \$35,600,000 to \$52,800,000.

The staff witness started with an examination of the operating performance of Edison and the eight largest electric utilities, six of which at the time were seeking rate relief. Exhibit No. 49 shows a five-year 1963-1967 average earnings on total capital for the eight companies of 7.00% and earnings on common equity of 11.64%. It also shows a 1967 average earnings on

total capital for the eight companies of 7.20% and earnings on common equity of 12.16%. If Consolidated Edison is excluded from the list of eight companies as clearly nonrepresentative in accordance with the contentions of Edison, the five-year 1963-1967 average return on capital for the eight companies is 7.20% and the return on common equity is 12.10%, and for the year 1967 the average return on capital is 7.41% and the average return on common equity is 12.65%.

With Consolidated Edison included in the list, the 5-year average common equity ratio for the eight companies is 39.43% compared with Edison's 38.01%. The 1967 average common equity ratio for the eight companies is 38.09% compared with 35.75% for Edison. The staff witness testified that he expects Edison's common equity ratio to be lower than 35% by December 31, 1969. With Consolidated Edison excluded, the 5-year average common equity ratio for the seven remaining companies is 40.42% and for 1967 is 39.00%.

The staff witness testified that in the exercise of informed judgment in determining a reasonable range for rate of return he considered various factors, some of which are positive and some of which are negative.

The positive factors are:

- (a) Edison's capital structure;
- (b) The growth potential in Edison's service area;
- (c) The trend towards higher debt cost;
- (d) Edison's continuing need for large amounts of external financing;
- (e) Edison's deteriorating interest coverage; and
- (f) The effects of continued inflation.

The negative factors are:

- (a) The size of Edison;
- (b) Edison's experienced earnings; and
- (c) The continuing trend toward increased consumption per customer.

The staff witness testified that the positive factors would cause him to recommend a higher rate of return, whereas the negative factors would cause him to recommend a lower rate of return.

In its brief Edison points out that since the eight-company average of total revenue and also the average of the total revenue for the seven companies, excluding Consolidated Edison, was larger than Edison's the size of Edison should have been considered as a positive rather than a negative factor.

Edison also urges that the Commission consider Edison's experienced earnings as a positive factor because of the decline in 1968 recorded earnings on common equity which continues through estimated 1969. Also Edison's earnings on common equity have during the period 1963 through 1967 increased only 0.04 percentage points, or about 0.3%. In contrast, for the eight companies during the same five-year period the increase in average return on common equity was 1.28 percentage points, or about 17%. For the seven companies excluding Consolidated Edison the increase would be even more because of Consolidated Edison's increase in earnings on common equity from 2.45% to 8.77%, or about 4%, during this same period.

The City of Long Beach in its brief requested the Commission to disregard the recommended rate of return percentage

figures made by the witnesses in this case and set a rate based on the information presented plus general information given to the Commission in other recent rate cases.

In its brief the Friant Water Users Association pointed out that the staff witness testified that the rate of return should be in the range of 7.0 to 7.3%. It also contended that this Commission has a responsibility to see that it does not condone or act in a manner to perpetuate higher and higher interest rates and that the Commission should establish the rate of return at the lowest level which will assure that Edison will be able adequately to provide service to all loads.

The Commission finds that a reasonable range for the rate of return for Edison at this time is 7.2 to 7.5%.

- II. Should the Commission authorize rates which will provide a reasonable rate of return on total system operations or rates which will provide a reasonable rate of return only on California jurisdictional operations?

In this proceeding both Edison and the staff have segregated Edison's revenues and allocated expense and rate base items as between those subject to the jurisdiction of this Commission and those subject to the jurisdiction of the Federal Power Commission. This was the result of the decision in City of Colton v. Southern California Edison Co., 376 U.S. 205 (1964). In this case the Supreme Court of the United States sustained the Federal Power Commission in its assertion of jurisdiction over sales to the City of Colton for resale, even though the seller Edison had no customers outside of California, and the interstate energy involved

was about one percent of the total energy on Edison's system.

Both Edison and the staff agree that the Federal Power Commission and not this Commission has sole jurisdiction over the resale rates.

The staff has taken the position that because of the dual regulatory jurisdictions involved the additional revenue requirements to be determined and the rates to be authorized by this Commission to produce such additional revenue should be based solely on a consideration of California jurisdictional revenues, expenses and rate base and the California jurisdictional rates themselves.

Edison has introduced evidence to show that the Schedule R-1 resale rates have been maintained at essentially the same level as the Schedule A-7 rates and the Schedule R-2 resale rates at the same level as the Schedule A-8 rates for many years for competitive reasons, a relationship established by the Commission when it was exercising jurisdiction over the resale rates.

Edison's rate witness testified that if the increase proposed by Edison for the Schedule A-7 customers was applied to the Schedule R-1 resale customers, an increase of only about \$7,000 in revenue for 1969 would result. At the staff's recommended level of increase for the Schedule A-7 rates the corresponding revenue increase from the Schedule R-1 resale customers would be even less. The staff agrees with the proposed retention of the Schedule A-8 rates at present levels for competitive reasons.

Edison asserts in its opening brief that there is no rate relief available from other non-CPUC jurisdictional customers,

as the only other revenue of consequence is the revenue from the Pacific Intertie transmission service contracts with the Public Agencies. Those rates are fixed by long-term contracts.

Edison further points out that if the recommendation of the staff that the Commission concern itself only with the revenue requirements to produce a reasonable rate of return from CPUC jurisdictional rates on a CPUC rate base, the relief granted will fall far short of meeting Edison's overall financial requirements. The future burdens which may result from the granting of inadequate rate relief will be borne almost entirely by CPUC jurisdictional customers.

However, Edison presented no exhibits to support its position that a lower than average system rate of return was justified for resale customers. The only objective bases available to the Commission are the cost allocation studies set forth by Edison in Exhibit No. 57 and the staff in Exhibit No. 59.

The Commission finds that cost is an indispensable factor in the setting of fair and reasonable rates for service. Under the circumstances of this proceeding the Commission concludes that it should authorize California jurisdictional rates which will provide a reasonable rate of return only on California jurisdictional operations.

III. What are the proper methods of allocating costs and rate base between jurisdictions?

A. Allocation between the interstate resale customer group and the other six intrastate customer groups.

The seven customer groups to which revenue, costs and rate base have been allocated both by Edison and by the staff are (1) domestic, (2) lighting and small power, (3) large power, (4) very large power, (5) agricultural power, (6) street lighting, and (7) resale.

Both Edison and the staff utilized the load factor - diversity factor method in preparing their allocation of costs and rate base in Exhibits Nos. 57, 59 and 77. The load factor - diversity factor method is one of the average and excess demand methods of allocation in which the commodity component is allocated in accordance with average group demands and the demand component is allocated in accordance with customer group excess demands. Hence, the relative utilization of facilities by the various customer groups is measured on an annual basis by considering both the group demands and the annual group average use. Both Edison and the staff agree that an average and excess demand method of cost allocation is preferable to a peak responsibility method.

Prior to this proceeding Edison, the staff and this Commission used the load factor - diversity factor method in making a one-step allocation among the seven customer groups listed above for the purpose of determining the portion of the total costs and the total rate base applicable to each customer

group. This one-step method of allocation is sometimes called the "customer-group-within-a-system" method and is the method which was again used by Edison in this proceeding as a part of the jurisdictional separation which has been made by Edison in Exhibit No. 57 as a result of the Colton decision.

The staff in making its allocations has adopted a two-step method, the first step of which is for jurisdictional purposes and has been called by the staff a "system-within-a-system" method and the second step of which is the customer-group-within-a-system method in which the customer groups are the six customer groups over which this Commission has jurisdiction. In both steps the staff used the load factor - diversity factor method.

The staff contends the system-within-a-system method is properly used for the "Resale" customer group because this group is a composite of customer groups whose characteristics approximate the composite of the six customer groups comprising "Other than Resale" and therefore the Resale group contributes relatively minor, if any, diversity benefits to the system as a whole. Under the first step of the staff method the Other than Resale group has no diversity because the peak demand of 7,569.3 MW occurs at the time of the system peak. This, of course, means that the peak of the Other than Resale group is the coincident peak of the six customer groups actually comprising the Other than Resale group. The only diversity is that contributed by the Resale group since the noncoincident demand for this group is 636.9 MW, whereas the coincident winter peak demand is 532.6 MW. The diversity factor for the two groups is the noncoincident demand of the two groups

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(7,569.3 MW + 636.9 MW = 8,206.2 MW) divided by the coincident demand of the two groups (7,569.3 MW + 532.6 MW = 8,101.9 MW). (8,206.2 MW ÷ 8,101.9 MW = 1.013 diversity factor.) The diversity factor of 1.013 is used to allocate demand costs to the Other than Resale group as well as to the Resale group in the first step of the staff method even though none of the diversity is contributed by the Other than Resale group. The table accompanying Chart 2 of Exhibit No. 73 shows the effect of this method on the allocation of demand costs to the two groups as follows:

Diversity Contribution

	<u>MW</u>	<u>Percent</u>
Resale	104.3	100
Other than Resale	0.0	0

Diversity Benefits Contribution

	<u>MW</u>	<u>Percent</u>
Resale	4.9	4.7
Other than Resale	99.4	95.3

Hence, under the staff method the Resale group is deprived of 95.3% of the diversity benefits actually contributed by the Resale group.

Exhibit No. 85 sets forth the relationship between the demands of the Resale group and the Other than Resale group for each month of the year. This data indicates that the diversity contribution of the Resale group is greater than provided in the staff studies. On the other hand, Edison has not established the appropriate diversity factor by load testing and engineering analysis.

We find that for purposes of allocating costs and rate base between the interstate resale customer group and the

other six intrastate customer groups for rate-making purposes the result of the method used by Edison in Exhibit 57 is reasonable and such method should be used in this proceeding. Edison is placed on notice, however, of its responsibility to develop more refined data and improved cost allocation methods for future proceedings.

B. Allocation of Pacific Intertie costs and rate base between the Federal Power Commission jurisdictional service to the Public Agencies and Edison's service subject to the jurisdiction of this Commission.

The Pacific Intertie facilities are described in Chapter 3 of the staff Exhibit No. 59. These facilities include the two 500 kv alternating current transmission lines extending in five segments from the Oregon-California border to Lugo Substation in Southern California and the Vincent-Sylmar 230 kv connection. Pacific Gas and Electric Company owns the three segments from Midway Substation to the north with the exception of portions near the Oregon border owned by Pacific Power and Light Company and the United States Bureau of Reclamation. Edison owns the segments south of Midway Substation and the Vincent-Sylmar connection. All of the agreements pertaining to the Pacific Intertie have been filed with the Federal Power Commission since they involve transmission service in interstate commerce.

Costs associated with the use of any Intertie facilities by the owning company in its system operations are borne by such company. Costs associated with the use of the Pacific Intertie for delivery of Northwest Power are shared by the three participating companies, Pacific Gas and Electric Company, Edison, and San Diego Gas & Electric Company, and are computed on a monthly basis. In

general such cost sharing results in a balancing payment by both San Diego Gas & Electric Company and Edison to Pacific Gas and Electric Company. Costs cover all costs involved including a 6.5 percent rate of return on the facilities and amounts paid and expenses incurred in the use of the portions owned by Pacific Power and Light Company and the United States Bureau of Reclamation. Intertie shared costs are apportioned among the companies in proportion to their relative size percentages which are set forth in the Intertie agreement as: 50 percent for Pacific Gas and Electric Company, 43 percent for Edison, and 7 percent for San Diego Gas & Electric Company. Revenues received from the Public Agencies are apportioned to the companies in these same percentages.

Transmission capacity for each company is determined by multiplying the Assured Intertie Capacity by the Relative Size Percentage of such company. Assured Intertie Capacity is rated capacity reduced by capacity provided to the Public Agencies.

In Exhibit No. 59 of the staff the jurisdictional division of the Intertie costs and rate base has been made on a fully allocated basis. Costs allocated to the Public Agencies are based on transmission capacity equivalent to deliveries agreed to for 1969 and reduced by an amount corresponding to the layoffs (amounts sold back) of transmission service by the Public Agencies to the California companies. The allocation of costs associated with service to the Public Agencies is on the same basis as the shared cost allocations set forth in the Intertie Agreement for the Firm Shared Cost Capacity available to Edison. The rate of return reflected in the development of the fully allocated costs is the 6.5% annual rate which was agreed to by the California companies in the Pacific Intertie agreement.

Staff Exhibit No. 59 shows that the transmission capacities agreed to with the Public Agencies, as of April 1969, are as follows:

	<u>Total Kilowatts</u>	<u>After Layoff Kilowatts</u>
U.S. Bureau of Reclamation	200,000	200,000
California Dept. of Water Resources	300,000	25,000
L.A. Dept. of Water and Power	430,000	430,000
Sacramento Municipal Utility District	38,790	-

During the test period 1969 the capacity layoffs made by Sacramento Municipal Utility District and the California Department of Water Resources result in the allocated sales to these agencies being absorbed by Edison and San Diego Gas & Electric Company.

Exhibit No. 59 also shows the assured capacity to the companies for April 1969, including the layoff amount, is as follows:

	<u>Kilowatts</u>
Southern California Edison Company	713,279
Pacific Gas and Electric Company	515,605
San Diego Gas & Electric Company	116,116

In Exhibit No. 59 the payments from the four Public Agencies are estimated to total \$2,959,000 in 1969 and Edison's share of these revenues amounts to 43 percent of the total, or \$1,272,000. The revenues reflect the contract rates applied to the amounts of transmission service available to the Public Agencies in the year 1969, even though portions of the allocated capacity are not taken by the Public Agencies. The fully allocated costs of Edison in 1969 of \$2,580,000 are the costs associated with the Intertie capacity used in part to provide service to the Public Agencies during the year.

In Edison's cost allocation study, the revenues from the public agency transmission are in effect credited to Intertie expense and the balances remaining are the costs allocated to the transmission service subject to the jurisdiction of this Commission. Edison gives three specific reasons for allocating the Intertie costs in this manner:

(1) The revenues from the Public Agencies are fixed by contract commitments which have made possible the building of the Pacific Intertie.

(2) The primary purposes for building the Pacific Intertie, however, are system reliability, emergency support and residual uses for the systems of the California Companies and not the provision of transmission service to the Public Agencies.

(3) The revenues from such transmission service to the Public Agencies are really just plus factors and thus, in effect, credits which tend to reduce the cost to the California Companies of the Pacific Intertie.

We are nevertheless convinced by the record in this proceeding and find that the fully allocated costs of providing service to the Public Agencies should be considered by the Commission. We therefore further find that the method used by the staff in allocating the costs and rate base associated with the Intertie facilities is reasonable and should be used in this proceeding.

IV. Should the Commission authorize rates which will produce no more than a 6% rate of return on the net investment of Edison in hydroelectric facilities licensed to Edison under the Federal Power Act?

In the application herein and in its briefs Edison points out that in licensing hydroelectric projects, the Federal Power Act and the regulations thereunder impose a duty on the licensee to set up an amortization reserve out of earnings in excess of a rate of return of 6%. Such reserve may be used to reduce net investment and, presumably, may reduce payments by successors to the original licensee in the event the project is recaptured. Whenever financial conditions establish a level of reasonable rate of return above the level of the rate of return specified in the license, the excess is subject to this treatment. Applicant urges this Commission, in order to avoid the creation of an amortization expense which should be allowed as an expense in this proceeding, to make the following finding:

That such new rates and tariffs will produce earnings of not more than 6% on the net investment of Edison in hydroelectric facilities licensed in accordance with the Federal Power Act.

The Commission will take official notice of Order No. 370 issued on September 27, 1968, by the Federal Power Commission under Docket No. R-297 to which reference has been made in the answering brief of the staff. This rule may be summarized as follows:

1. The standard against which "excess earnings" is to be measured is one and one-half times the weighted average annual imbedded cost rate of long term debt, or 6%, whichever is higher.

2. Calculations are to be made for each and every year the project is under license.

3. If the net operating revenue allocated to the project for the year is less than fair return upon the net investment in the project, the accumulated excess earnings total for all years shall be reduced by the amount of the deficit.

4. Excess earnings are charged off against the investment or earnings base for the year incurred, so that excess earnings write-offs compound. However, deficiencies may not be compounded.

5. The allocation of system earnings between project plant and non-project plant is on the basis of original cost less depreciation of the components, respectively.

6. The rule is merely a guide. On the basis of a satisfactory showing by the licensee, net investment could be calculated in a different manner.

The above limitations are limitations imposed by the Federal Power Act and the regulations thereunder and not by this Commission. This Commission can permit Edison to earn a reasonable rate of return on such facilities but it cannot change the 6% limitation. That is a matter for the Federal Power Commission. On October 25, 1968, this Commission filed a petition for rehearing requesting that Order No. 370 be modified so as to give proper weight to the rate regulatory role assigned to the states by the Federal Power Act. Rehearing has been granted.

This record does not reflect the amount of the rate base which represents the net investment of Edison in hydroelectric facilities licensed to Edison under the Federal Power Act, and so the Commission, even if it desired to do so, could not adjust the

revenue requirements to reflect a 6% rate of return on such facilities and a 7.35% rate of return on the balance of the facilities. If the Commission allows a 7.35% rate of return on the net investment in hydroelectric facilities licensed to Edison, the 1.35% additional revenue will offset the 1.35% amortization expense. The estimates of rate base in the record herein have not been adjusted to reflect any such amortization.

The Commission will not make the finding requested by Edison pertaining to earnings on the net investment of Edison in hydroelectric facilities licensed in accordance with the Federal Power Act.

- V. Which of the differing estimates of revenues, expenses, rate base and resulting rates of return should be adopted as reasonable?

Edison's estimates of revenues, expenses and rate base differ from those of the staff as follows:

<u>Item</u>	<u>Edison</u>	<u>Staff</u>	<u>Difference</u>
	(Dollars in Thousands)		
Operating Revenues	\$636,422	\$634,300	\$2,122
<u>Operating Expenses</u>			
Production	154,816	154,300	516
Transmission	22,525	22,000	525
Distribution	41,174	39,900	1,274
Customer Accounts	17,136	17,200	(64)
Sales	9,032	8,800	232
Administrative & General	<u>46,121</u>	<u>43,900</u>	<u>2,221</u>
Subtotal	\$290,804	\$286,100	\$4,704
Depreciation	80,988	81,000	(12)
Taxes Other than Income	<u>75,358</u>	<u>75,200</u>	<u>158</u>
Subtotal	\$447,150	\$442,300	\$4,850

<u>Item</u>	<u>Edison</u>	<u>Staff</u>	<u>Difference</u>
	(Dollars in Thousands)		
<u>Excluding 10% FIT Surcharge</u>			
Taxes Based on Income	<u>\$31,120</u>	<u>\$32,500</u>	<u>\$(1,380)</u>
Total Operating Expenses	\$478,270	\$474,800	\$3,470
Net Revenue	\$158,152	\$159,500	\$(1,348)
Rate Base	\$2,432,000	\$2,430,700	\$1,300
Rate of Return	6.50%	6.56%	(0.06)%
<u>Including 10% FIT Surcharge</u>			
Estimated Surcharge	\$ 3,404	\$ 3,500	\$ (56)
Taxes Based on Income	<u>34,524</u>	<u>36,000</u>	<u>(1,476)</u>
Total Operating Expenses	\$ 481,674	\$ 478,300	\$ 3,374
Net Revenue	\$ 154,748	\$ 156,000	\$ (1,252)
Rate Base	\$2,432,000	\$2,430,700	\$ 1,300
Rate of Return	6.36%	6.42%	(0.06)%

A. Operating Revenues.

Edison has estimated more revenues than the staff based primarily upon higher estimated kilowatt hour sales. We find that the estimate of \$636,422,000 for operating revenue is reasonable and should be adopted.

B. Production Expenses.

Edison's higher estimate of production expense is consistent with its higher estimate of sales. We find the estimate of \$154,816,000 for production expense is reasonable and should be adopted.

C. 1969 Wage Increase.

In its estimates of operating expenses Edison used 7% for the additional wage increase package in 1969. The 7% is halfway

between the hourly raise of 6 1/2% and the estimated total cost of 7 1/2% for the entire wage increase package. The staff in its estimates of operating expenses used 6 3/4% for the additional wage increase in 1969.

Edison's witness estimated that the additional cost for birthday holidays would amount to .41%. He also estimated that an additional .1% would be added to the labor cost because of an increase in shift differential; an increase in the per diem travel allowance for employees on temporary duty; an increase in the allowance for lead man where two men at the same wage scale are working together and one of them has to be paid a differential; an increase in the overtime meal expense allowed for steam production employees; and an increase in the room and weekend travel allowance. He estimated that the change in the double time provision, liberalizing the point at which an employee draws double time pay, will add somewhere between 1/2% and 1% to the labor cost.

We find that the allowance of 7% for the additional labor costs in 1969 is reasonable and will be adopted in this proceeding.

D. Transmission Expense.

Edison's higher estimate for transmission costs in part is attributed to the difference in Edison's and the staff's evaluation of the effect of the 1969 wage increase.

It is also the result of different estimating techniques. Edison's estimate of transmission expense is based upon separate estimates for each of the primary accounts which in turn are based upon anticipated operation and maintenance work for each division

responsible for the work. Proposed new line additions and new substation facilities and additions to existing substations were considered in arriving at the estimates. On cross-examination the staff sought to show that Edison had included in its estimate certain maintenance items in 1969 which were non-recurrent and the cost of which should have been spread over a number of years. Edison's witness, however, testified that such treatment of maintenance expense would be incorrect since the maintenance expenses are incurred each year on the Edison system even though they do not occur with respect to the same facility each year.

The staff estimates for the 1969 transmission expenses were made separately for each of the accounts in the transmission group of expenses. Consideration was given to recorded data from January, 1965 through August, 1968. Estimates were based on trends, averages and a review and analysis of Edison's work papers.

The Commission has already adopted the higher operating revenue estimate and the higher wage increase estimate of Edison. We find that the estimate of \$22,525,000 for transmission expense is reasonable and should be adopted in this proceeding.

E. Distribution Expenses.

The following tabulation indicates the recorded distribution expenses for the years 1965 through 1968 and the estimated distribution expenses for the year 1969, together with the year-to-year percentage increases in such figures:

Distribution Expenses
(Dollars in Thousands)

<u>Year</u>	<u>1965</u>	<u>1966</u>	<u>1967</u>	<u>1968</u>	<u>1969</u>
Recorded	\$28,026	\$30,762	\$35,458	\$36,451	
Increase Over Prior Years		9.8%	15.3%	2.8%	
Average Year Increase (1965-68) 9.3%					
Estimate Using Ave. Inc.		\$30,632	\$33,481	\$36,595	\$39,998
Edison's Estimate					\$41,174
Increase Over Prior Year					13%
Staff's Estimate					\$39,900
Increase Over Prior Year					9.4%

The year 1967 was a year of relatively high distribution expense and the year 1968 was a year of relatively low distribution expenses compared with previous years after taking into consideration growth in the plant. This was due primarily to the effects of different amounts of storm damage in 1967 and 1968 and to a change in accounting methods which took place January 1, 1967, which resulted in an increase in the amounts charged to distribution expense and a decrease in the amounts charged to customer accounts expense.

Edison used man-days to estimate labor costs and then applied the wage rates. The staff estimates were made separately for each of the accounts and were based on trends and a careful analysis of Edison's estimating methods and work papers. The staff estimate in Exhibit No. 48 was increased \$1.2 million to reflect a 6 3/4% wage increase of \$1,634,000 and a decrease of \$434,000 as a result of an account analysis of 1968 recorded figures and latest available data.

In its brief Edison urged that the recorded year 1968 should not be considered a normal year to which a normal one-year increase should be added.

The staff estimate will be increased by \$200,000 to reflect increases by reason of the adoption of the higher revenue estimate of Edison and the 7.0% wage increase for 1969. We find that an estimate of \$40,100,000 for distribution expense is reasonable and should be adopted in this proceeding.

F. Customer Accounts.

We find that the estimate of \$17,136,000 for customer accounts is reasonable and should be adopted in this proceeding.

G. Sales Expenses.

The following tabulation shows the recorded sales for the years 1965 through 1968 and the estimated sales expenses for the years 1968 and 1969 together with the year-to-year percentage increases in such figures.

<u>Year</u>	<u>Sales Expenses</u> (Dollars in Thousands)				
	<u>1965</u>	<u>1966</u>	<u>1967</u>	<u>1968</u>	<u>1969</u>
Recorded	\$6,833	\$7,108	\$7,368	\$8,334	
Increase Over Prior Year		4.0%	2.6%	13.0%	
Edison's First Estimate				\$8,411	\$8,800
Increase Over Prior Year				14.1%	5.7%
Staff's First Estimate				\$8,175	\$8,650
Increase Over Prior Year				11.0%	3.6%
Edison's Revised Estimate					\$9,032
Increase Over Prior Year					8.5%
Staff's Revised Estimate					\$8,800
Increase Over Prior Year					5.7%

Edison's revised estimate reflects a 7.0% increase in wages and an expectation of further recovery in the housing market, including a growth in the percentage of Medallion customers.

The first staff estimate was based on a review and analysis of trended recorded data from 1964 through June, 1968. Special consideration was given to the marked change in residential construction trends starting in 1967 in connection with the Medallion Program and in Edison's expenses relating thereto. The staff's revised estimate reflects an allowance of \$191,000 for a 6 3/4% wage increase. In our opinion the staff estimate should be adjusted upwards to reflect a 7.0% wage increase and additional sales expenses by reason of increased housing starts and higher operating revenues.

We find that \$8,941,000 is a reasonable estimate for sales expense and such estimate should be adopted in this proceeding.

H. Administrative and General Expenses.

The following is a tabulation of the first and the revised estimates of administrative and general expenses which were introduced into evidence by Edison and by the staff.

	<u>Administrative and General Expenses for 1969</u>		
	<u>Edison</u>	<u>Staff</u>	<u>Difference</u>
	<u>(Dollars in Thousands)</u>		
Revised Estimate	\$46,121	\$43,900	\$2,221
First Estimate	<u>41,691</u>	<u>41,800</u>	<u>(109)</u>
Increase in Revised Estimate	\$ 4,430	\$ 2,100	\$2,330

A. 50363 hjh

The total unusual storm damage expense incurred by Edison in January and February of 1969 was \$4,405,000. Edison included one-fifth of this amount or \$880,000 in its revised estimate of administrative and general expenses for 1969. The staff included only one-fifth of the unusual storm expense in January of 1969 in the amount of \$2,085,000, or \$417,000 in its revised estimate. This accounts for \$463,000 of the \$2,221,000 difference in the two revised estimates.

Edison's revised estimate for Account 920, Administrative and General Salaries, included \$255,000 for an additional 2% wage increase adjustment for 1969 since a 5% wage increase adjustment had already been reflected in its original estimate plus an additional \$782,000 for increase in the labor base. The staff revised estimate included \$979,000 for a 6 3/4% wage rate increase in 1969 but did not include any additional amount for increase in the labor base. The staff's estimate was based on a five year trend. Edison's estimates were based on function budgets prepared by each department. Edison's revised estimate for administrative and general salaries is \$842,000 larger than the revised estimate of the staff. A part of this difference results from the exclusion by the staff of legislative advocacy expense in the amount of \$36,000 for 1969 as a rate-fixing adjustment consistent with Decision No. 67369 issued in Case No. 7409, Pacific Telephone and Telegraph Company, 62 CPUC 775, 853. (1964).

Edison increased its revised estimate for 1969 employee pensions and benefits from \$12,797,700 to \$14,278,800, an increase of \$1,481,100. The \$502,000 increase in the staff estimate from \$13,714,000 to \$14,216,000 was based on the recommendation of Edison's actuary. The revised Edison estimate for 1969 employee pensions and benefits is \$62,000 larger than the staff estimate.

The Bolsa Island Desalting Plant write-off by the staff in its revised estimate was based on a five-year amortization of the total cost amounting to \$200,000 per year. Edison included the total balance to be written off of \$420,000 in its revised estimate. This accounts for \$230,000 of the difference in the Edison and staff revised estimates. The staff's estimate for office supplies and expenses does not include \$31,500 which Edison estimates it will pay to Chambers of Commerce and similar organizations. The staff estimate for miscellaneous general expense excludes \$332,500 for donations and contributions to social, charitable and political organizations and donations and grants to colleges. These exclusions are consistent with the Commission action previously taken in Decision No. 67369 issued in Case No. 7409, Pacific Telephone and Telegraph Company, 62 CPUC 775,852 (1964), in which this Commission said:

"Dues, donations, and contributions, if included as an expense for rate-making purposes, become an involuntary levy on ratepayers, who because of the monopolistic nature of utility service, are unable to obtain service from another source and thereby avoid such a levy. Ratepayers should be encouraged to contribute directly to worthy causes and not

involuntarily through an allowance in utility rates. Respondent should not be permitted to be generous with ratepayers' money but may use its own funds in any lawful manner."

This language was quoted with approval by the California Supreme Court in Pacific Telephone and Telegraph Company vs. Commission, 62 Cal. (2d) 634 at 668-69.

The Commission will adopt the staff estimate for 1969 administrative and general expenses of \$43,900,000 increased by the following adjustments: unusual storm damage expense, \$463,000; additional wage increase of 1/4%, \$36,000. We find that an estimate of \$44,399,000 for administrative and general expense is reasonable and should be adopted in this proceeding.

I. Revenues, Expenses, Rate Base and Resulting Rates of Return.

We find that the following estimates of revenues, expenses, rate base and resulting rates of return are reasonable and should be adopted in this proceeding.^{1/}

^{1/} Both Edison and the staff, however, are placed on notice that not only are sales of electric energy for resale under Schedule R-1 and R-2 within the jurisdiction of the Federal Power Commission but that other sales for resale such as sales for resale to shopping centers, office buildings, apartment houses and trailer courts may be sales for resale within the jurisdiction of the Federal Power Commission by reason of the decision of the U. S. Supreme Court in FPC v. Southern California Edison Company, 376 U. S. 205, 216, 11 L. ed. 638, 646 (1964).

(Thousand Dollars)

Item	Year 1969 Present Rates	Year 1969 Adjusted For Pacific Intertie	Year 1969 CPUC Jurisdictional w/o Catalina ^{2/}
Operating Revenue	636,422	635,244	606,763
<u>Operating Expenses</u>			
Production	154,816	154,816	142,680
Transmission	22,525	22,151	20,623
Distribution	40,100	40,100	40,042
Customer Accounts	17,136	17,136	17,097
Sales Expenses	8,941	8,941	8,941
Adm. & General	44,399	44,379	43,021
Subtotal	287,917	287,523	272,404
Depreciation	80,988	80,634	77,298
Taxes Other than Income	75,358	75,009	71,958
Subtotal	444,263	443,166	421,860
<u>Excluding 10% FIT Surcharge</u>			
Taxes Based on Income	32,581	33,174	32,307
Total Operating Exp.	476,844	476,340	454,167
Net Revenue	159,578	158,904	152,596
Rate Base	2,431,350	2,411,525	2,304,240
Rate of Return	6.56%	6.59%	6.62%
<u>Including 10% FIT Surcharge</u>			
Estimated Surcharge	3,509	3,509	3,479
Taxes Based on Income	36,090	36,683	35,786
Total Operating Exp.	480,353	489,849	457,646
Net Revenue	156,069	155,395	149,117
Rate Base	2,431,350	2,411,525	2,304,240
Rate of Return	6.42%	6.44%	6.47%

VI. How should the effect of the Federal Income Tax Surcharge be reflected in rates?

The Commission will take official notice of the extension of the 10 percent Federal income tax surcharge through December 31, 1969.

Edison is urging the Commission to treat the Federal income tax surcharge as though it were to continue indefinitely and to defer consideration of the effect of its discontinuance until such time as it actually is discontinued through the failure of Congress to re-enact an extension of the tax. This could be done (1) under the Commission's policy of continuous surveillance of utility operating performance and, if justified, through the negotiation of rate reductions, or (2) during some future application of Edison for rate increases.

^{2/} Catalina Island is not a part of Edison's integrated system.

The staff recommended that a surcharge of 1.82% to reimburse Edison for the full 10% Federal income tax surcharge be applied to billings under all rate schedules which are recommended by staff for rate increase. The staff further recommended that at such time as the surcharge is effectively suspended or terminated, in whole or in part, and not replaced by a substitute tax based on income, the surcharge shall be eliminated or reduced to the extent of the net reduction of the tax. The staff recommendation is consistent with action taken by this Commission in other recent proceedings. See Decision No. 74836, issued October 15, 1968 in Applications Nos. 50448, 50449, and 50485 of Southern California Water Company and Decision No. 75429 issued March 18, 1969 in Application No. 50713 of Southern California Gas Company.

In its briefs Edison urges that the procedure recommended by the staff has three major defects:

1. It applies a uniform percentage to revenue under each of the rate schedules recommended for rate increase. This procedure ignores the fact that the surtax is a function of return and thus is related to return to the customer group or alternately rate of return and rate base for the group.

2. It picks out for such treatment the only item of expense that might reasonably be expected to go down and ignores every other item of expense that could, and very likely will, go up, including the income tax burden in other forms such as investment tax credit.

3. It only proposes to cover certain kinds of Federal income tax substitutes for the surtax. Hence it does not realistically and efficaciously deal with the problem in a manner calculated to minimize the frequency with which Edison may be required to reapply to the Commission for relief as a result of subsequent tax changes.

We find that under the circumstances of this proceeding, i.e., since the Federal income tax surcharge is to continue in effect under present law only until December 31, 1969, the recommendation of the staff with respect to the method of the handling of the Federal income tax surcharge is reasonable and it will be adopted. The actual percentage rate to be applied to the billings under the rate schedules which are increased will be specified elsewhere in this decision.

VII. What are the additional revenue requirements of Edison?

The midpoint of the reasonable range for the rate of return of 7.2 to 7.5% is 7.35%. Because the Commission has found that (1) the Commission should authorize rates which will provide a reasonable rate of return only on California jurisdictional operations, and (2) the fully allocated costs of providing service through the Pacific Intertie should be considered by this Commission; the computation of the additional revenue requirements will be based on the estimates in the findings set forth on page 29 for California jurisdictional operations without Catalina for year 1969.

We find that Edison should be authorized to increase its rates so that it will have the opportunity to earn additional revenue without surcharge of \$35,139,000 and additional surcharge revenue of \$11,529,000, and so that its rate of return will be 7.35% on the California jurisdictional rate base without Catalina of \$2,304,240,000.

We further find that based on the capitalization shown in Edison's Exhibit No. 62 the level of return on equity to be adopted

as reasonable for purposes of authorizing rates in this proceeding should be 11.79% on California jurisdictional operations.

We further find that the surcharge on the rates which are authorized to provide for additional revenue without surcharge of \$35,139,000 should be 2.00%, and that such percentage as a surcharge on paid rates will provide for additional surcharge revenue of \$11,529,000.

VIII. Should the agricultural and pumping group be given lesser increases in rates than those proposed by Edison?

Friant Water Users Association points out in its brief that Edison is proposing to increase its rate of return from the Agricultural and Large Pumping group to a level which would be 83% above its rate of return in 1957 from the same group and claims that this is an excessive increase when recognition is given to the poorer competitive and payment capacity of the agricultural group.

Friant Water Users Association also points out that the agricultural and pumping group loads and delivered energy have remained quite stable during a period of time when the increasing loads for other groups have forced Edison greatly to increase its generation and long distance transmission facilities. The summer peaks and the winter peaks have each been successively higher than both the previous summer peak and winter peak. Although the agricultural and pumping loads are relatively heavy during the summer season, they are at a minimum during the winter season except for minor wind machine loads.

As evidence of the fact that the electric service rates for the agricultural and pumping group are becoming less competitive with other power sources Friant Water Users Association refers (1) to the bonus of \$25 per horsepower which has been offered to agricultural and pumping power users as an inducement to change from other power services to electricity, and (2) to the fact that only a very few of

the wind machines installed for frost protection in the San Joaquín Valley in recent years have been electric. The Water Users Association also urges in its brief as justification for its position the fact that the agricultural water users as individuals pay demand or service charges and that the water districts which are owned by the water users also pay demand or service charges although the water districts' pumps do not generally run at the same time as the individual customers' units run.

Edison in its brief points out that the pumping load contributes substantially to the summer monthly peaks, and the summer peaks are as important as winter peaks in determining capacity requirements. The use of noncoincident demand for allocating costs between customer groups gives the customers and customer groups the benefit of whatever diversity is derived from each class of customer or load. In this Commission's 1957 Decision, Re Southern California Edison Co., 55 CPUC 743, 769, the Commission gave recognition to the off-peak nature of the pumping load which existed at that time, but stated that in time the growth of air conditioning may swing Edison's system over to summer peaks. Pending such change in system characteristics, the Commission said it would give agriculture some credit for off-peak load. The Edison system presently, and has for a number of years, been both a summer and winter peaking system.

Edison also contends that the argument that the demand or service charges paid by the individuals and by the water district are duplicate charges because the water district pumps do not generally run at the same times as the individual customer's units is without merit. Edison points out that the diversity has already been taken into consideration in allocating costs among the customer groups and in designing the rate schedules applicable to each customer within a customer group.

The agricultural and pumping rates which will be authorized herein will be lower than those requested in the application because the revenue requirements are less than the \$60,000,000 requested by Edison. In establishing these rates, however, recognition will be given to our finding that Edison is both a summer and winter peak system and to our finding that the load factor-diversity factor method of allocating costs gives sufficient consideration to the diversity existing between the individual pumping customers and to the Water District customers in their pumping operations. Consideration will also be given to the competitive situation shown to exist by our finding that \$25 per horsepower bonus payment has been offered to agricultural and pumping power users for conversion to electricity and to our finding that very few of the wind machines installed for frost protection in the San Joaquin Valley in recent years have been electric.

IX. Since any increase in the cost of street lighting will be paid for through an increase in taxes, should any such increase be borne by the ratepayer in the lighted area rather than through an increase in the rates for street lighting?

In its brief the City of Long Beach states that the cost of street lighting, in general, is borne by the ratepayer in the lighted area, and that any increase in the cost of street lighting will be paid for by an increase in taxes and then by payment to the utility. It urges that it would be more efficient to spread any justified increase over other classes of service, rather than to increase the street lighting tariffs.

We are not convinced by their argument. There is nothing in the record to show that the ratepayer in the lighted area is the same as the taxpayer or that their respective burdens would be the same if justified increases in the street lighting rates were spread over the other classes of service.

- X. Should the increases in rates for large power services, those provided the A-7 customers, be less than those proposed by Edison?

The California Manufacturers Association, hereinafter called CMA, in its opening brief states that CMA takes no position as to what total revenue increase should be allowed to Edison, but that, whatever total revenue increase is required, there is no justification for major increases in charges for service to industry generally and that no increase at all should be imposed on Schedule A-3. It may be noted here that no increases in the Schedule A-3 rates have been proposed by Edison or urged by the staff or any party to this proceeding.

With respect to the Large Power customers CMA urges that the small share of rate reduction since 1957 received by A-7 customers justifies a similar limitation on the increases in A-7 rates. The listed rate changes in Exhibit No. 32 from the first in May 1958 to the most recent in August 1968 total \$29,394,000. Of that amount, CMA contends that only \$1,627,000 or 5.4% is attributable to reductions in rates under Schedule A-7, while under Edison's proposed rates the A-7 customers would provide 11.76% of the proposed increase in system revenues. The rate spread proposed by the staff would obtain 14.39% of the increased revenue suggested by the staff from A-7 customers. CMA further points out that while the staff based its rate spread on a revenue requirement of 54% of that sought by Edison, its proposal for Schedule A-7 is approximately 71.2 percent of Edison's proposal for this schedule. Hence if the staff rate spread is applied to a larger revenue increase than that proposed by the staff, the rates in Schedule A-7 could be higher than those proposed by Edison. The staff recommended, however, that no schedule should be subjected to an increase higher than that proposed by Edison. The staff rate

spread produced a greater percentage of the required revenue from A-7 customers than did Edison's rate proposal because, for the reduced revenue requirement, it nonetheless adopted Edison's proposed increase in the minimum demand for Schedule A-7 from 75 kw to 200 kw.

CMA contends that although Edison's rate witness testified that in making his specific rate proposals he did consider the fact that the rate of return on service to Large Power and Very Large Power customers has been increasing while that for other classes such as Domestic customers has been decreasing, greater weight could well have been given to such cost of service data in proposing rates for Large Power customers.

CMA argues that the load factor-diversity factor method of cost allocation used by Edison and by the staff results in an over-allocation of costs to high load factor customers and that a more reasonable assignment of costs in accordance with the "noncoincident demand" method would show even higher rates of return for Large Power customers.

In its brief Edison responds to the contentions of CMA by pointing out that a less than system average increase is proposed for A-7 customers under both Edison's and the staff's proposals. This suggests that some adjustment in the present relationship, favorable to the A-7 customers, is appropriate but not that the adjustments made since 1957 should be completely reversed. A substantial part of the increase in the present Schedule A-7 customers is the result of reclassifying that customer group by changing the qualifications for service under the A-7 schedule. It is proposed that the smaller customers now served on Schedule A-7 (those between 75 kw and 200 kw of demand) be transferred to Schedules A-1 to A-6 which have higher rate levels than Schedule A-7. The power factor adjustment will be applicable to all customers on this schedule.

In its brief the staff points out that in addition to the \$1,627,000 reductions granted A-7 customers referred to by CMA that in July, 1963, an additional \$2,255,000 of reductions was granted to former A-7 customers transferring to the new Schedule A-8. The total reduction to the A-7 customers would therefore be \$3,882,000 or 12.99% of the total reductions of \$29,894,000 to all customers. The 12.99% is a figure between the 11.76% figure of Edison and the 14.89% figure of the staff representing the percentage of the increased total revenue from all rates to be produced by the respective proposed increases in the Schedule A-7 rates. The staff also notes that cost-of-service is only one of the guidelines utilized in the establishment of rates.

Since CMA did not submit any studies utilizing the non-coincident demand method and since the studies of Edison and the staff both utilized the load factor-diversity factor method, we find that the utilization of the load factor-diversity factor method of cost allocation is reasonable in this proceeding as a guide to rate design. The Schedule A-7 rates without surcharge which will be authorized herein in no case will be higher than those proposed by Edison and on the whole will be lower because the revenue requirements are less than the \$60,000,000 requested by Edison. The adopted rate design will preclude rate reductions below present rates to large A-7 customers upon removal of the surcharge.

XI. What findings and conclusions should be made by the Commission?

Based upon a careful consideration of the record herein the Commission finds as follows:

1. A reasonable range for the rate of return for Edison in this proceeding is 7.2 to 7.5%.
2. The level of return to be adopted as reasonable for purposes of authorizing rates in this proceeding should be 7.35% on California jurisdictional operations without Catalina.

3. The level of return on equity to be adopted as reasonable for purposes of authorizing rates in this proceeding should be 11.79% on California jurisdictional operations.

4. For purposes of allocating costs and rate base between the interstate Resale customer group and the other six intrastate customer groups for rate-making purposes the result of the method used by Edison in Exhibit No. 57 is reasonable and such method should be used in this proceeding. Edison is placed on notice, however, of its responsibility to develop more refined data and improved cost allocation methods for future proceedings.

5. The method used by the Commission staff in allocating the costs and rate base associated with the Pacific Intertie facilities is reasonable and should be used in this proceeding.

6. The fully allocated costs of providing service to the Public Agencies through the Pacific Intertie and the system rate base adjusted for the Pacific Intertie should be considered by the Commission.

7. The finding requested by Edison pertaining to the limitation of earnings to 6% on the net investment of Edison in hydro-electric facilities licensed in accordance with the Federal Power Act should not be made.

8. The estimates of revenues, expenses, rate base, and resulting rates of return for the year 1969 at present rates set forth in the table on page 29 of this decision are reasonable and should be adopted in this proceeding.

9. Edison should be authorized to increase its rates so that it will have the opportunity to earn additional revenue without surcharge of \$35,139,000 and additional surcharge revenue of \$11,529,000 and so that its rate of return will be 7.35% on the California jurisdictional rate base without Catalina of \$2,304,240,000.

10. The surcharge on the rates which are authorized to provide for additional revenue without surcharge of \$35,139,000 should be 2.00%, and such percentage as a surcharge on said rates will provide for additional surcharge revenue of \$11,529,000.

11. The recommendation of the staff with respect to the method of the handling of the Federal income tax surcharge is reasonable and it should be adopted.

12. Edison is both a summer and a winter peak system.

13. The load factor-diversity factor method of allocating costs gives sufficient consideration to the diversity existing between the individual pumping customers and to the Water District customers in their pumping operations.

14. A bonus of \$25 per horsepower has been offered to agricultural and pumping users for conversion to electricity.

15. Very few of the wind machines installed for frost protection in the San Joaquin Valley in recent years have been electric.

16. There is nothing in the record to show that the ratepayer in the lighted area served by street lighting customers is the same as the taxpayer in such area or that their respective burdens would be the same if justified increases in street lighting rates were spread over the other classes of service.

17. The total reductions to the A-7 customers from the first in May 1958 to the most recent in August of 1968 is \$3,882,000 or 12.99% of the total reductions of \$29,894,000 to all customers during this period.

18. Cost of service is only one of the guidelines utilized in the establishment of rates.

19. The utilization of the load factor-diversity factor method of cost allocation is reasonable in this proceeding as a guide to rate design.

20. The "test year" 1969 used by both Edison and the staff for their principal showings on the results of operation is reasonable for determination of Edison's future rates.

21. Cost is an indispensable factor in the setting of fair and reasonable rates.

22. Edison is entitled to increased gross intrastate revenues in the amount of \$46,668,000 which based upon the test year is justified.

23. The rates authorized by this Commission as set forth in Appendix B hereto are fair, just and reasonable.

Based upon a consideration of the record and the foregoing findings the Commission concludes as follows:

1. The application herein of Edison should be granted to the extent set forth in the preceding findings and in the following order and in all other respects should be denied.

2. The increases in rates and charges authorized herein are justified.

3. The rates and charges authorized herein are just and reasonable and present rates and charges insofar as they differ therefrom are for the future unjust and unreasonable.

4. All motions consistent with these findings and conclusions should be granted and those inconsistent therewith should be denied.

O R D E R

IT IS ORDERED that:

1. After the effective date of this order, applicant Southern California Edison Company is authorized to file rates revised as set forth in Appendix B attached hereto. Such filing shall comply with General Order No. 96-A. The effective date of the revised rate schedules shall be four days after the date of filing. The revised rate schedules shall apply only to service rendered on and after the effective date thereof.

2. The application of Southern California Edison Company in all other respects is denied.

3. All motions consistent with the findings and conclusions set forth above in this decision are granted, and those inconsistent therewith are denied.

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

Dated at San Francisco, California, this 26th day of AUGUST, 1969.

William Lyons Jr.
President

August

Robert Novak

William

Thomas M. ...
Commissioners

APPENDIX A

LIST OF APPEARANCES

APPLICANT: Rollin E. Woodbury, H. W. Sturges, Jr., and William E. Marx, for Southern California Edison Company.

PROTESTANT: James F. Sorrenson, for Friant Water Users Association.

INTERESTED PARTIES: Lawler, Felix & Hall, by Richard D. DeLuce, for Air Products and Chemicals, Inc.; William Knecht and Ralph Hubbard, for California Farm Bureau Federation; Henry F. Lippitt, 2nd, for California Gas Producers Association; Brobeck, Phleger and Harrison, by Gordon E. Davis, and Robert E. Burt, for California Manufacturers Association; Clayson, Stark, Rothrock and Mann, by George G. Grover, for California Mutual Water Companies Association; Gordon W. Hoyt, Utilities Director, for City of Anaheim; Paul D. Foxworthy, City Administrator, for City of Azusa; Keith F. Mulrooney, City Manager, for City of Claremont; Louis Possner and Arthur Y. Honda, Deputy City Attorney, for City of Long Beach; Roger Arnebergh, City Attorney, and Robert W. Russell, Chief Engineer and General Manager, Department of Public Utilities and Transportation, by Kenneth E. Cude, and K. D. Walpert, Department of Public Utilities and Transportation, for City of Los Angeles; Lloyd B. Adams, for City of Los Angeles Department of Water and Power; Victor E. Barton, for City of Monrovia; Verne H. Tindell, for City of Santa Ana; Robert W. Hutton, for City of Santa Barbara; Charles H. McGovern, for City of Vernon; W. C. Avery, Sr., for County Service Area #8, San Bernardino County; Kenneth M. Robinson and John W. Feist, for Kaiser Steel Corporation; Henry E. Walker, for Perfectaire Manufacturing Company; H. L. Goth, John Ormasa, K. R. Edsall and Lionel E. Goff, Jr., for Southern California Gas Company, Southern Counties Gas Company and Pacific Lighting Service & Supply Company; Overton, Lyman & Prince, by Donald H. Ford, for Southwestern Portland Cement Company; Ronald M. Kolda, for Traffic Department, Division of Highways, State of California; J. K. Cummings, Chief, by Robert P. Hamilton, for Power Office, Department of Water Resources, State of California; George A. Tucker, in his own behalf; Victor V. Bowker, for Tulare County National Farmers Organization; Robert F. Smith and Walter C. Leist, for Union Carbide Corporation; Harold Gold, Manuel Briskin and Stuart Foutz, for Department of Defense and other executive agencies of the United States of America; William E. Rhodes, for United States Naval Facilities Engineering Command Southwest Division; and Fred A. Strauss for Vandalia Irrigation District, Tea Pot Dome Water District.

COMMISSION STAFF: Cyril M. Saroyan, Counsel, Manley W. Edwards, General Division Engineer, and Raymond E. Heytens.

APPENDIX B
Page 1 of 8

RATES - SOUTHERN CALIFORNIA EDISON COMPANY

Applicant's rates, charges and conditions are changed to the level or extent set forth in this appendix.

Preliminary Statement

Modified as proposed in Sheet D-1 of Exhibit "D" to Application No. 50363 and a new section added to read as follows:

E. PROVISION FOR 10 PERCENT FEDERAL INCOME TAX SURCHARGE

Until the 10 percent surcharge to Federal income tax is removed, bills computed under filed tariffs, other than Schedule No. A-8, will be increased for such surcharge as set forth on the tariff schedules. At such time as this surcharge is effectively suspended or terminated, in whole or in part, and not replaced by a substitute tax based on income, the above surcharge shall be eliminated or reduced to the extent of the net reduction of the tax.

Schedules Nos. A-1, A-2, A-3, A-4, A-5 and A-6RATES

RATE A	1	2	3	4	5	6
Customer Charge: single phase	\$0.75	\$0.85	\$0.95	\$1.05	\$1.15	\$1.25
three phase	1.75	1.85	1.95	2.05	2.15	2.25
Energy Charge:						
First 100 kwhr, per kwhr	3.9¢	4.1¢	4.3¢	4.5¢	4.8¢	5.2¢
Next 400 kwhr, per kwhr	3.7	3.9	4.1	4.3	4.5	5.0
Next 1,000 kwhr, per kwhr	2.7	2.7	2.7	2.7	2.7	3.3
Next 1,500 kwhr, per kwhr	2.3	2.3	2.3	2.3	2.3	2.3
Excess kwhr, per kwhr	1.6	1.6	1.6	1.6	1.6	1.6

Minimum Charge:

The monthly minimum charge shall be the monthly Customer Charge.

RATE B

Demand Charge:

First 20 kw or less billing demand (No charge)	-	-	-	-	-	-
All Excess billing demand per kw	\$1.00	\$1.00	\$1.00	\$1.00	\$1.00	\$1.00

Customer and Energy Charges (to be added to Demand Charge):

First 150 kwhr per kw billing demand						
First 3,000 kwhr, per kwhr	Same as Rate A					
Excess kwhr, per kwhr	1.5¢	1.5¢	1.5¢	1.5¢	1.5¢	1.5¢
Next 150 kwhr per kw billing demand						
First 15,000 kwhr, per kwhr	1.2	1.2	1.2	1.2	1.2	1.2
Excess kwhr, per kwhr	0.8	0.8	0.8	0.8	0.8	0.8
Over 300 kwhr per kw of billing demand	0.6	0.6	0.6	0.6	0.6	0.6

Minimum Charge:

The monthly minimum charge shall be \$1.00 per kw of Billing Demand.

APPENDIX B
Page 2 of 8

RATES - SOUTHERN CALIFORNIA EDISON COMPANY

Schedules Nos. A-1, A-2, A-3, A-4, A-5 and A-6 (Cont'd)

Add a new special condition:

6. Federal Income Tax Surcharge: Until the 10 percent surcharge to Federal Income Tax is removed, bills under the above tariff will be increased by 2.00 percent as set forth in Section H of the Preliminary Statement. (Except in Schedule A-6 this is Special Condition No. 7)

APPLICABILITY, TERRITORY and other SPECIAL CONDITIONS

Modified as proposed in sheets Nos. D-2 through D-13 of Exhibit "D" to Application N° 50363.

Schedule No. A-7

RATES

Demand Charge:

First 200 kw or less of billing demand	\$205.00
Next 1,800 kw of billing demand, per kw	0.85
Next 8,000 kw of billing demand, per kw	0.75
Next 40,000 kw of billing demand, per kw	0.60
All excess kw of billing demand, per kw	0.55

Energy Charge (to be added to Demand Charge):

First 150 kwhr per kw of billing demand:	
First 30,000 kwhr, per kwhr	1.50¢
Balance of kwhr, per kwhr	1.00
Next 150 kwhr per kw of billing demand, per kwhr	0.80
All excess kwhr, per kwhr	0.60

Minimum Charge:

The monthly minimum charge shall be the monthly Demand Charge.

Add a new special condition:

9. Federal Income Tax Surcharge: Until the 10 percent surcharge to Federal Income Tax is removed, bills under the above tariff will be increased by 2.00 percent as set forth in Section H of the Preliminary Statement.

APPLICABILITY, TERRITORY and other SPECIAL CONDITIONS

Modified as proposed in sheets Nos. D-14 and D-15 of Exhibit "D" to Application No. 50363.

Schedule No. A-8

Modified as proposed in sheets Nos. D-16, D-17 and D-18 of Exhibit "D" to Application No. 50363, without the addition of a 10 percent Federal Income Tax Surcharge special condition.

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RATES - SOUTHERN CALIFORNIA EDISON COMPANY

Schedules Nos. D-1, D-2, D-3, D-4, D-5 and D-6

RATES

	Charges Per Month					
	1	2	3	4	5	6
Customer Charge	\$0.75	\$0.85	\$0.95	\$1.05	\$1.15	\$1.25
Energy Charge (to be added to Customer Charge):						
First 60 kwhr, per kwhr	3.9¢	4.1¢	4.3¢	4.5¢	4.8¢	5.2¢
Next 90 kwhr, per kwhr	2.5	2.7	2.9	3.1	3.3	3.6
Next 150 kwhr, per kwhr	1.8	1.8	1.8	1.8	1.8	1.8
Next 600* kwhr, per kwhr	1.4	1.4	1.4	1.4	1.4	1.4
Excess kwhr, per kwhr	1.2	1.2	1.2	1.2	1.2	1.2

Minimum Charge:

The monthly minimum charge shall be the monthly Customer Charge.

- * Where the customer as of _____, 1969 (effective date of order) has an electric water heating installation conforming to Rule No. 32, the rate for monthly usage between 300 and 600 kwhr is 1.2¢ per kwhr during the period _____, 1969 (effective date of order) through _____, 197__ (three years).

APPLICABILITY and TERRITORY

Modified as proposed in sheets Nos. D-19 through D-24 of Exhibit "D" to Application No. 50363.

Add a new special condition:

SPECIAL CONDITION

Federal Income Tax Surcharge: Until the 10 percent surcharge to Federal Income Tax is removed, bills under the above tariff will be increased by 2.00 percent as set forth in Section H of the Preliminary Statement.

Schedule No. DM

Modified as proposed in sheet No. D-25 of Exhibit "D" to Application No. 50363.

Add under "Energy Charge" the following sentence:

"Where the water heating rate is applicable, the first 300 kwhr of the 600 kwhr block, multiplied by the number of single-family accommodations receiving such service, will be accorded the special 1.2 cent per kwhr rate."

Add a new special condition:

SPECIAL CONDITION

2. Federal Income Tax Surcharge: Until the 10 percent surcharge to Federal Income Tax is removed, bills under the above tariff will be increased by 2.00 percent as set forth in Section H of the Preliminary Statement.

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RATES - SOUTHERN CALIFORNIA EDISON COMPANY

Schedule No. DWL

Modified as proposed in sheet No. D-26 of Exhibit "D" to Application No. 50363, except the monthly facilities charge is to be changed from company's proposed \$0.0135 per dollar of utility investment to the present \$0.0125 per dollar of utility investment.

Add a new special condition:

5. Federal Income Tax Surcharge: Until the 10 percent surcharge to Federal Income Tax is removed, bills under the above tariff will be increased by 2.00 percent as set forth in Section H of the Preliminary Statement.

Schedule No. LS-1

RATES

<u>Lamp Size - Lumens</u>	<u>Per Lamp</u>
<u>Incandescent Lamps</u>	<u>Per Month</u>
1,000 Lumens	\$ 2.25
2,500 Lumens	3.45
4,000 Lumens	4.20
6,000 Lumens	4.85
10,000 Lumens	6.80
 Mercury Vapor Lamps	
7,000 Lumens	4.20
11,000 Lumens	4.90
20,000 Lumens	6.05
35,000 Lumens	8.95
55,000 Lumens	11.10

Delete special condition 4 and in place thereof add:

4. Federal Income Tax Surcharge: Until the 10 percent surcharge to Federal Income Tax is removed, bills under the above tariff will be increased by 2.00 percent as set forth in Section H of the Preliminary Statement.

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RATES - SOUTHERN CALIFORNIA EDISON COMPANY

Schedule No. LS-2RATES

RATE A - UNMETERED SERVICE

For each kw of lamp load, per kw

Per Month			
All Night Service	Midnight Service	Multiple Series	Multiple Series
\$6.65	\$7.40	\$5.35	\$5.75

Per Meter Per Month			
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RATE B - METERED SERVICE

Meter Charge:

Multiple Service

\$0.95

Series Service

7.80

Energy Charge (to be added to Meter Charge):

First 150 kwhr per kw of lamp load, per kwhr

3.40¢

All excess kwhr, per kwhr

0.73

RATE C - MAINTENANCE SERVICE - OPTIONAL:

Modified as proposed in sheet No. D-29 of Exhibit "D" to Application No. 50363, except reduced by 2.0%.

Add a new special condition:

6. Federal Income Tax Surcharge: Until the 10 percent surcharge to Federal Income Tax is removed, bills under the above tariff will be increased by 2.00 percent as set forth in Section H of the Preliminary Statement.

Other SPECIAL CONDITIONS

Modified as proposed in sheets Nos. D-30 and D-31 of Exhibit "D" to Application No. 50363.

Schedule No. OL-1RATES AND SPECIAL CONDITIONS

Modified as proposed in sheets Nos. D-32 and D-33 of Exhibit "D" to Application No. 50363, except add special condition No. 7:

7. Federal Income Tax Surcharge: Until the 10 percent surcharge to Federal Income Tax is removed, bills under the above tariff will be increased by 2.00 percent as set forth in Section H of the Preliminary Statement.

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RATES - SOUTHERN CALIFORNIA EDISON COMPANY

Schedule No. P-1

RATES

: Horsepower of : Connected Load	: Monthly : Energy Charge Be Added to			
	: Service : Service Charge Rate Per Kwhr			
	: Charge : for Monthly Consumption of:			
	First 100	Next 100	All Over 200	
: Per Hp	Kwhr Per Hp	Kwhr Per Hp	Kwhr Per Hp	
2 to 9.9	\$0.98	2.94¢	1.57¢	1.15¢
10 to 24.9	0.88	2.35	1.47	1.15
25 and Over	0.80	2.25	1.42	1.15

Minimum Charge:

The monthly minimum charge shall be the monthly Service Charge.

APPLICABILITY

Add the following clause:

This schedule is closed to new customers as of _____ (Effective date of order).

Add a new special condition:

7. Federal Income Tax Surcharge: Until the 10 percent surcharge to Federal Income Tax is removed, bills under the above tariff will be increased by 2.00 percent as set forth in Section H of the Preliminary Statement.

Schedule No. P-2

Existing Schedule No. P-2 is canceled and withdrawn and those whose demands are below 200 kw are to be transferred to Rate "B" of General Service Schedules Nos. A-1 through A-6 and those whose demands are 200 kw or more will be transferred to General Service Schedule No. A-7.

Schedule No. PA-1

: Horsepower of : Connected Load	: Annual : Energy Charge To Be Added to			
	: Service: Service Charge Rate Per Kwhr			
	: Charge : for Annual Consumption of:			
	First 1000	Next 1000	All Over 2000	
: Per HP	Kwhr Per Hp	Kwhr Per Hp	Kwhr Per Hp	
2 to 4.9	\$9.00	2.0¢	0.85¢	0.59¢
5 to 14.9	8.00	1.8	0.85	0.59
15 to 49.9	7.50	1.7	0.85	0.59
50 to 99.1	7.00	1.6	0.85	0.59
100 and Over	6.50	1.5	0.85	0.59

Minimum Charge:

The annual minimum charge shall be the Annual Service Charge.

Add a special condition:

11. Federal Income Tax Surcharge: Until the 10 percent surcharge to Federal Income Tax is removed, bills under the above tariff will be increased by 2.00 percent as set forth in Section H of the Preliminary Statement.

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RATES - SOUTHERN CALIFORNIA EDISON COMPANY

Schedule No. PA-2

RATES

Demand Charge:

First 75 kw or less of billing demand
All excess kw of billing demand, per kw

Per Meter
Per Month

\$72.50
0.88

Energy Charge (to be added to Demand Charge):

First 150 kwhr, per kw of billing demand
First 15,000 kwhr, per kwhr
Excess kwhr, per kwhr

1.50¢
1.18

Next 150 kwhr, per kw of billing demand
All excess kwhr, per kwhr

0.78
0.59

Minimum Charge:

The monthly minimum charge shall be the monthly Demand Charge.

SPECIAL CONDITIONS

Modified as proposed in sheets Nos. D-40 and D-41 of Exhibit "D" to Application No. 50363, except to add:

6. Federal Income Tax Surcharge: Until the 10 percent surcharge to Federal Income Tax is removed, bills under the above tariff will be increased by 2.00 percent as set forth in Section H of the Preliminary Statement.

Schedule No. TC-1

Establish a new schedule No. TC-1, Traffic Control Service, as set forth on proposed sheet D-42 of Exhibit "D" to Application No. 50363, except to set the terminal energy charge rate at 1.6¢ and add the following special condition:

2. Federal Income Tax Surcharge: Until the 10 percent surcharge to Federal Income Tax is removed, bills under the above tariff will be increased by 2.00 percent as set forth in Section H of the Preliminary Statement.

Schedule No. A-6.1

The existing closed schedule A-6.1 is to be canceled and withdrawn and the customers transferred to General Service Schedule No. A-6.

Schedule No. A-24

The existing closed schedule A-24 is to be canceled and withdrawn and the customers transferred to General Service Schedule No. A-6.

Schedule No. CAD-20

Modified as proposed in sheet No. D-48-A of Exhibit "D" to Application No. 50363, except revised to expire in three years rather than two years.

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RATES - SOUTHERN CALIFORNIA EDISON COMPANY

Schedule No. DWE-20

Modified as proposed in sheet No. D-49 of Exhibit "D" to Application No. 50363, except to expire in three years and add the following special condition:

9. Federal Income Tax Surcharge: Until the 10 percent surcharge to Federal Income Tax is removed, bills under the above tariff will be increased by 2.00 percent as set forth in Section H of the Preliminary Statement.

Schedule No. LS-23

This closed schedule is to be canceled and withdrawn and accounts transferred to appropriate street lighting schedules.

Schedule No. PA-20

This closed schedule is to be canceled and withdrawn and accounts transferred to Schedules Nos. PA-1 and PA-2 as appropriate.

Rule No. 1 Definitions

Applicant's definitions are modified as proposed in sheets Nos. D-55 and D-56 of Exhibit "D" to Application No. 50363, except as follows:

General Service: Service to any lighting or power installation except those eligible for service on single family domestic, street lighting, outdoor area lighting, traffic control, resale, or standby schedule.

Rule No. 2, Description of Service

Applicant's description of service shall not be modified as proposed in sheet No. D-57 of Exhibit "D" to Application No. 50363, except to add under Section H the following condition:

3. There shall be added to any bills under this Section H. until the 10 percent surcharge to Federal Income Tax is removed, 2.00 percent as set forth in Section H of the Preliminary Statement.

Rule No. 32, Special Conditions for Domestic Water Heating Service

No change from present Rule No. 32 is authorized.

Index of Communities

Modified as proposed in sheets Nos. D-59, D-60, D-61, D-62 and D-63 of Exhibit "D" to Application No. 50363.

Index of Rate Areas and Rate Zoning Maps

Modified as proposed in sheets Nos. D-64, D-65, D-66, D-67, D-68, D-69 and D-70 of Exhibit "D" to Application No. 50363.