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ORIGINAL

Decision No. 83838

BEFORE THE PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

In the Matter of the Application of SOUTHERN CALIFORNIA EDISON COMPANY for Authority to Increase Rates Charged by it for Electric Service.	Application No. 53488 (Filed August 1, 1972)

(Appearances listed in Appendix A)

OPINION ON EXPLORATION AND DEVELOPMENT PROGRAM

Nature of Proceeding

On the forty-fifth day of hearing on this rate increase application, Southern California Edison Company (Edison) introduced evidence of the costs of conducting an extensive exploration and development (E&D) program directed towards the acquisition of additional energy resources for electric generation. Because of the time required by other participants to prepare exhibits and testimony on this aspect of the proceeding, the parties agreed to bifurcate the proceedings with the exploration and development phase to be heard and considered separately subsequent to the issuance of a Commission decision on the general rate case phase.

Additional hearings were held on January 28, 29, and 30, 1974 in Los Angeles before Examiner Boneysteele and the matter was submitted on opening and closing briefs. On June 21, 1974 subsequent to submission and prior to issuance of a decision on the E&D phase, Edison filed a motion to amend the application and set aside the previous submission to receive additional evidence. Interim Decision No. 83170 dated July 23, 1974 ordered the proceeding to be reopened for further hearings for the purpose of receiving more definitive proposals for guidelines and statements of policy upon which to base a final order establishing appropriate exploratory and development program procedures. These further hearings were held before Examiner Johnson in Los Angeles on September 24 and 25, 1974 and the matter was again submitted.

Testimony was presented on behalf of Edison by its manager of fuel contracts, its manager of energy resources,[1] its manager of oil, gas, and geothermal exploration and development,[2] one of its accountants, its manager of tariffs, and its chief regulatory cost engineer. Testimony was presented on behalf of the Commission staff by one of its engineers.

The basic parameters of the proposed exploration and development program are set forth in a fuel service agreement effective January 1, 1973, between Mono Power Company (Mono) and Edison. Edison proposes that the fuel service charge derived in accordance with the agreement be recovered through the fuel cost adjustment billing factor procedure. Proposed tariff revisions to accomplish this fuel service adjustment, together with the calculation of the fuel service charge increment for the 12-month period ending June 30, 1975, were entered into evidence through Edison's manager of rates.

Fuel Service Agreement

Decision No. 83170 approved in principle and concept the exploration and development arrangement pursuant to the Edison-Mono fuel service agreement.

1/ Dr. C. M. Swinney is also a vice president of Mono Power Company.

2/ Mr. B. J. Perry is also a vice president of Mono Power Company, and vice president and director of Mono Power Company (Bolivia), Mono Power Company (Peru), Mono Power Company (Nicaragua), and Mono Power Company (Malaysia).

Mono, a wholly owned subsidiary of Edison, is engaged in the exploration, development, production and sale, or distribution of energy resources in the form of gas, oil, coal, nuclear, or geothermal resources. In accordance with the terms of the agreement, Mono will seek, find, develop, process, and deliver to Edison such kinds of energy resources and in such ways as may be approved by Edison. Edison will compensate Mono for such fuel supply service at the cost to Mono of conducting such activities.

Edison is to advance funds to Mono, by loan or otherwise, under such terms and conditions as then prevail in financial circles for comparable maturities at an annual charge no higher than the rate of return most recently approved for Edison by this Commission plus associated income taxes.

Testimony on the activation of projects by Mono was presented at the hearing by Edison's manager of energy resources and manager of oil, gas, and geothermal exploration and development. This testimony indicated that all proposed projects are evaluated by Mono with respect to technical and financial aspects. The technical aspects include evaluation of data on geology, geophysics, geochemistry, and prior exploration and development history. Evaluation of the financial aspects includes review of the economics of the product and the kind of business arrangements that can be made. The testimony indicated that the majority of submittals are rejected after a preliminary evaluation because of high geologic risks or unattractive business terms. Those projects that appear to be based on sound geological factors and appear to present attractive business terms are forwarded to independent outside consultants for further review. If a proposed project receives favorable commendation from the consultant, Mono attempts to negotiate the best terms available. Mono then furnishes Edison a complete description of each proposed energy resource project. In accordance with the fuel service agreement the description shall include the anticipated consequences, the manpower and staffing requirements, the estimated annual and total costs, and the timetable of activity for such project. Upon approval by an Edison officer such energy resource project is included in the fuel supply service budget as of the first day of the budget year following such approval.

The agreement further provides that not less than thirty days prior to the first day of the calendar year or the first day of a calendar quarter on which a change in fuel supply service is proposed, Mono is to furnish Edison a summary of the energy resource projects applicable to such budget year, together with a calculation of the monthly fuel service charge to be effective for such budget year. At the close of each calendar year, Mono shall determine for each energy project the difference between the estimated cost used for billing and the experienced costs. This difference is to be added to or subtracted from the estimated future cost of such projects and included in the fuel supply service budget for the next succeeding budget year.

Mono is to sell to Edison those fuels acquired pursuant to the agreement that are suitable for use by Edison to produce electricity in its generating plants. Mono is to sell those portions of acquired energy resources or projects Edison is unable to utilize. The proceeds are first to be applied to the remaining unamortized balance of Mono's investment in the project with any net loss to be amortized the same as exploration costs of unsuccessful projects and any net gain to be applied against the then outstanding unamortized expenditures for fuel supply service or for additional fuel supply service beginning with the next quarterly revision of the fuel supply service budget. Benefits from sales of fuel or energy are to be reflected in the fuel service charge in a similar fashion.

Mono is to maintain its books in accordance with the fundamental principles embodied in the Uniform System of Accounts for Electric Corporations prescribed by the Federal Power Commission and adopted by this Commission. Exhibit 81-A is a revised fuel service agreement introduced into evidence at the September 24, 1974 hearing. The revisions include accounting changes recommended by the Commission staff.

Other revisions in the agreement provide (1) for amortization of exploration costs over a five-year period and the inclusion of such amortized cost in the determination of the monthly fuel service charge when the project has been determined to be unsuccessful, and (2) the proceeds of the sale of an interest or production of a project, including leasehold interests and mineral rights, will first be used to reduce the unamortized balance of exploration costs of the project with the proceeds in excess of such unamortized balance to be used to reduce other unamortized balances or for other projects covered by the fuel service agreement. In addition, Appendix A to the agreement was revised to reflect budgeted projects and the fuel service charge for the budget year commencing July 1, 1974 and an Appendix B was added to the agreement to provide a detailed description of the accounting and calculation of the annual charge for fuel exploration and development projects.

Annual Report

The Commission staff recommended that Mono be required to file an annual report with the Commission setting forth its operating results, financial position, and a schedule of E&D projects. In complying with this recommendation, Edison proposes that a report be submitted on the first working day of March of each year which would include descriptions of new projects, progress reports on existing projects, and a financial statement. Edison's manager of energy resources sponsored a sample report containing descriptions and support data on all new projects, progress reports on prior approved projects and new projects being submitted for approval, a financial section, and a section on reserves.

At the hearing, after review of Edison's presentation and cross-examination, the staff engineer further recommended that the contemplated annual report contain a separate section on new project descriptions which includes a summary of the maximum exposure for new projects and maximum remaining exposures for existing projects; that it be filed by advice letter requiring a Commission resolution to effect an increase in the adjustment clause; and that it contain a section explaining why projects with over three years exploration are still continuing.

Other Staff Recommendations

The Commission staff engineer testified that it is his recommendation that a limit for exploration activities be established as the lesser of five percent of the annual fuel budget or 0.08 cents per kilowatt-hour; that project lives and depreciation method be included in the annual remaining life depreciation review submitted by Edison; and that only projects previously recognized by this Commission be reflected in the annual recalculation of costs. He further recommended that in order to provide a proper basis for regulatory review, new projects should only be considered for rate-making purposes once each year by the filing of an annual report covering projects entered into subsequent to the last report. In accordance with his recommendation the cost of these new projects will be included for rate-making purposes only after this Commission has advised Edison by letter as to which projects may be included in the next quarterly filing.

Comparison of GEDA Procedure and Edison-Mono Fuel Service Agreement

Exhibit 102A presents a comparison between the Southern California Gas Company Gas Exploration and Development Adjustment (GEDA) and the Edison-Mono Fuel Service Agreement. The prepared testimony associated with Exhibit 102A (Exhibit 113) states that the Edison-Mono Agreement conforms to the principles adopted by this Commission in approving GEDA in all essential features except for prior CPUC approval before project commitment and the three year limitation on commitment of funds set forth under GEDA. Further Edison testimony alleged that it is not desirable to similarly limit the Edison-Mono Agreement as such restrictions would be deleterious to Edison's ability to participate through Mono in some ventures both because of the limited time in which to make decisions and the fact that some projects require prolonged exploration work. The Commission staff limited its opposition to this position to recommending that an explanation of why the exploration is taking more than three years be included in the annual report to the Commission.

Proposed Tariff Provisions

Edison proposes additional text for the fuel cost adjustment billing factor of the Preliminary Statement. This additional text includes the fuel service charge payable to Mono in the computation for the adjustment amount for fossil fuel expense and provides that payments to Mono, above or below such supplier's cost, are to be reflected in revisions of the monthly service charge on a prospective basis. Such a procedure would permit Edison to include requests for revisions in the fuel service charge to reflect cost changes in projects previously approved by this Commission in its advice filings for changes in the fuel cost adjustment billing factor.

The applicability of nuclear and geothermal power costs to the fuel service charge is not clearly set forth in the proposed tariff provisions. The record, however, is quite clear that nuclear and geothermal costs were intended for inclusion in the computations of the fuel service charge and should be reflected in Edison's tariffs. The authorized tariff changes appended to this order will clarify this point.

Initial Fuel Service Charge Increment

Edison presented testimony to the effect that the initial fuel service charge increment should be 0.008 cents per kilowatt-hour, which reduces to 0.006 cents per kilowatt-hour after deducting 0.002 cents per kilowatt-hour representing the amount already included in the base rates. This increment is based on a total fuel service charge of $4,152,000 for the 12 months ending June 30, 1975. The record shows that of this amount $3,743,000 would be allocated to retail California jurisdiction sales.

Discussion

Edison has revised the original Edison-Mono fuel service agreement to clarify the language and incorporate staff recommended changes. Testimony was presented detailing the procedure for activating new projects. A suggested form of annual report was received into evidence and testimony on recommended changes and improvements was unchallenged. The procedure for filing annual reports and effecting quarterly adjustments to E&D related fuel costs was detailed on the record and accepted by Edison and the Commission staff. Consequently at this time there appears to be no unresolved issues on the E&D phase of this matter.

Findings

1. The Southern California Edison Company-Mono Power Company fuel service agreement as modified in this procceding is reasonable. The imposition of prior Commission approval before project commitment and a three-year limitation on commitment of funds would be detrimental to Edison's proposed E&D operations and the ratepayers.

2. The sample annual report filed as Exhibit 119 in this proceeding should be modified to include a new section on new project descriptions including a listing of maximum exposures for the new projects as well as a listing of the maximum remaining exposure on existing projects and a new section summarizing the bases for exploration on projects running over three years.

3. The changes in tariff provisions authorized herein are reasonable. Such changed tariff provisions permit Edison to make quarterly advice filings requesting revision in its fuel cost adjustment billing factor to reflect cost changes in projects which have been recognized by this Commission.

4. The annual report should be filed by advice letter filing requiring a Commission resolution to effect increases in E&D's billing adjustments.

5. The project lives and depreciation method should be included in the annual remaining life depreciation review submitted by Edison.

6. Funds devoted to exploration should be limited to five percent of Edison's annual fuel budget or 0.08 cents per kilowatt-hour, whichever is lower.

7. A proper E&D fuel service charge based on this record is 0.006 cents per kilowatt-hour.

The Commission concludes that the application should be granted to the extent set forth in the order which follows.

ORDER ON EXPLORATION AND DEVELOPMENT PROGRAM

IT IS ORDERED that:

1. After the effective date of this order, Southern California Edison Company is authorized to file the revised tariff schedules attached to this order as Appendix B and concurrently to cancel and withdraw the presently effective schedules. Such filing shall comply with General Order No. 96-A. The effective date of the revised schedules shall be four days after the date of filing.

2. On or before April 1 of each year Edison shall file with the Commission an annual report on the Edison-Mono fuel service agreement consisting of the following sections: New Project Descriptions, Progress Reports-New Projects, Financial Section, and Existing Projects-More Than Three Years Exploration. The section on new projects shall contain a summary of the maximum exposures, the section on existing projects shall contain a summary of the maximum remaining exposure, and the section on projects with more than three years exploration shall detail the reasons that the exploration activities have exceeded three years.

3. The project lives and depreciation method for energy resource projects shall be included in the annual remaining life depreciation review submitted by Edison.

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

Dated at San Francisco, California, this 17th day of DECEMBER, 1974.

Vernon L. Sturgeon
President

William Symons Jr.

[signature]

Robert E. Meyland
Commissioners

I dissent for the same reasons enumerated in my dissent of Dec. No. 81898

[signature], Commissioner

APPENDIX A

LIST OF APPEARANCES

Applicant: Rollin E. Woodbury, Robert J. Cahall, William E. Marx, and H. Robert Barnes, by William E. Marx, and Philip Walsh, Attorneys at Law, for Southern California Edison Company.

Protestants: Laurence J. Thompson, for the Cities of West Covina, Inglewood, Manhattan Beach, Hermosa Beach, and Torrance Kennard R. Smart and Furman B. Roberts, Attorneys at Law, for the City of Orange; George Wakefield and L. J. Thompson, by John Lippitt, for the City of West Covina; Louis Possner, for the City of Long Beach; Daniel Collins, for the City of Torrance; and James F. Sorensen, for Friant Water Users Association.

Intervenors: Curtis L. Wagner, Jr., and Frank J. Dorsey, Attorneys at Law, for the Executive Agencies of the United States; and John R. Phillips, Attorney at Law, Larry E. Moss, Daniel L. Dawes, and Walter C. Bond, for The Sierra Club.

Interested Parties: William L. Knecht, Attorney at Law, and Ralph Hubbard, for California Farm Bureau Federation; R. C. Arnold, for Shell Oil Company; Robert F. Smith and Walter C. Leist, for Union Carbide Corporation; Robert W. Russell, by Kenneth E. Cude, for the City of Los Angeles; Eugene R. Rhodes and O. T. Jones, for Monolith Portland Cement Company; Kenneth M. Robinson, Attorney at Law, and George B. Scheer, for Kaiser Steel Corporation; Brobeck, Phleger & Harrison, by Robert N. Lowry, Gordon Davis, and Larry Hultquist, Attorneys at Law, for California Manufacturers Association; John H. Lauten, by H. Kenneth Hutchinson, Attorney at Law, for The Metropolitan Water District of Southern California; Carl Alan Wulfestieg, for the Los Angeles Department of Water and Power; Arthur Kugel, for the Public Utilities Department, City of Riverside; Paul Hendricks, for the City of Vernon; Lawler, Felix & Hall, by Richard D. De Luce, Attorney at Law, E. V. Sherry, and Baker, Hostetler & Patterson, by Alan G. Rorick, Attorney at Law, for Air Products and Chemicals, Inc.; Stephens, Jones, La Fever & Smith, by Maurice Jones, Jr., Attorney at Law, for Revere Copper and Brass, Inc.; and E. A. Tharpe III, Attorney at Law, for Southern California Gas Company.

Commission Staff: Rufus G. Thayer and Janice E. Kerr, Attorneys at Law, Norman R. Johnson, T. F. Marvin, Robert C. Moeck, Bruno A. Davis, and Kenneth K. Chew.

PRELIMINARY STATEMENT
(Continued)

G. FUEL COST ADJUSTMENT BILLING FACTOR

1. Bills rendered under the rate schedules and special contracts contained herein shall be increased or decreased by an adjustment amount related to increases or decreases in the cost per million Btu of fuel used in the utility's generating plants as set forth below and to the fuel service charge payable to Mono Power Company.

2. An adjustment amount per kilowatt-hour sold shall be determined to be applied to service rendered on and after the effective date and continuing thereafter until the next such adjustment amount becomes effective in accordance herewith. A forecast period is the 12-month period commencing with the expected effective date of each adjustment amount per kilowatt-hour. Such fuel cost adjustment billing factor shall not be revised more often than once every three months.

3. The amount of gas fuel shall be the quantity of gas in millions of Btu expected to be received from each supplier during the forecast period under average temperature conditions. The amount of coal fuel shall be the quantity of coal in millions of Btu which can be utilized in available cost-fired generating facilities. The amount of oil fuel shall be the quantity of oil in millions of Btu equal to the difference between (a) the total fossil fuel requirements in the forecast period under normal conditions of temperature and precipitation, and (b) the fossil fuel requirements in the forecast period expected to be supplied by gas and coal fuels.

4. The base rates reflect a cost of fossil fuel of 75.0 cents per million Btu and a fuel service charge of .002 cents per kilowatt-hour. The adjustment amount per kilowatt-hour sold shall be determined as follows: The amount of the total fuel cost adjustment shall be determined by calculating the total estimated annual amount of fossil fuel expense including the fuel service charge payable to Mono Power Company

PRELIMINARY STATEMENT
(Continued)

(based on prices of fuels on or before the first day the proposed adjustment is to be effective, the amount of the currently effective fuel service charges on an annual basis, and the fuel availability for the twelve-month period commencing with such day) and deducting therefrom the corresponding cost of the same quantity of heat energy utilizing the price levels and relative availability of fuels which form the basis for the then existing base rates. The total fuel cost adjustment for the system would then be allocated to customers by using a unit fuel cost adjustment billing factor (rounded to the nearest 0.001¢) and applying such factor to the quantities of energy billed.

5. The price of gas fuel shall be the average of each applicable rate or contract price, expressed in cents per million Btu, in effect on or before the first day of the forecast period weighted by the quantity of gas expected to be received from such supplier during the forecast period. The price of coal fuel shall be the invoice price for such fuel, expressed in cents per million Btu, as of the first day of the forecast period. The price of oil fuel shall be the average of cost of each type in inventory (determined in accordance with the Uniform System of Accounts) on the first day of the forecast period for the amount of such oil fuel in inventory and the price of any oil fuel required in excess of such inventory shall be at the price (including sales and use taxes) of the most recent delivery of such fuel.

6. The adjustment amount to be added to or subtracted from each bill shall be the product of the total killowatt-hours for which the bill is rendered multiplied by the adjustment amount per killowatt-hour sold.

7. Each adjustment amount per kilowatt-hour sold shall be filed with the California Public Utilities Commission on or before the thirtieth day preceding the date on which such adjustment amount becomes effective.

PRELIMINARY STATEMENT
(Continued)

8. Effective for service rendered on and after November 13, 1974, the adjustment amount per kilowatt-hour sold is 0.949 cents per kilowatt-hour.

9. Any refund from a fuel supplier shall be refunded with 7% interest to the utility customers. A refund plan shall be filed with the California Public Utilities Commission when such refunds have accumulated to a total of $1,000,000 or more. Payments to its fuel service supplier, above or below such supplier's cost for project recognized by the Commission, shall be reflected in revisions of the monthly service charge on a prospective basis.

10. Effective for service rendered on and after August 19, 1974, and for 12 months following said date, billings, in addition to the application of the fuel cost adjustment billing factor referred to in items 2 and 8 above, shall be increased by a special fuel cost adjustment of 0.020 cents per kilowatt-hour, pursuant to Decision No. 83226.