Item H-1
11/13/87

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Decision 87 11 013 NOV 13 1987 ORIGINAL

BEFORE THE PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

In the Matter of the Application of the SOUTHERN CALIFORNIA EDISON COMPANY (U 338-E) for (1) Authority to change its rates effective June 1, 1987 by decreasing its energy cost adjustment billing factors and increasing its electric revenue adjustment billing factor; (2) Authority, at some future date, to reduce its energy cost adjustment clause rates to reflect fuel and energy cost savings attributable to Palo Verde Nuclear Generating Station Unit 3 and Balsam Meadow, coincident with increases in base rates, respectively; (3) Authority to implement other modifications to its energy cost adjustment clause and its electric revenue adjustment mechanism as more specifically set forth in this Application; (4) Review of the reasonableness of Edison's Operations during the period from December 1, 1985, through November 30, 1986; and (5) Review of the reasonableness of Edison's payment to qualifying facilities under Non-Standard Contract during the period December 1, 1984, through November 30, 1986.	Application 87-02-019 (Filed February 5, 1987)

(Appearances are listed in Appendix A.)

O P I N I O N
(Phase I)

Summary

This decision authorizes an annual revenue reduction of $194.8 million comprised of a reduction in ECAC revenue of $400.3 million, offset by increases in AER revenue of

$175.9 million and in ERAM revenue of $29.6 million. The decision reimposes a ten percent annual energy rate (AER) to give Edison a realistic incentive to reduce its fuel and purchased power expenses. The decision authorizes Edison, among other things, to recover EEDA costs, to recover uranium costs, to cycle fuel inventory, and to reflect in ECAC rates rate adjustments from other proceedings such as the Chevron Option Agreement settlement rate in D.87-06-021, the CLMAC rates in D.87-05-021, and the Uranium Contract settlement rate in D.87-10-042.

This decision was originally issued as a Proposed Decision to which the parties filed comments. Based on those comments this decision has been revised. Edison commented that the decision erred in determining fixed fuel oil inventory carrying costs by using the short-term debt rate (Bankers Acceptance) rather than its authorized rate of return. We have used the short-term rate in other situations and find it appropriate here.

Edison comments that our fuel oil inventory level of 4.4 million barrels is inadequate and should be 7.8 million barrels; that the 1.5 million barrels of oil allocated for its Fuel Management Requirement is inadequate; and that accounting issues related to fuel oil inventory carrying costs be resolved in a separate proceeding. We see no reason to modify our fuel oil inventory level of 4.4 million barrels nor change the Fuel Management Requirement, but we will consider the accounting issues in a further proceeding.

Edison requests that rather than using the recorded ECAC and ERAM account balances as of June 1, 1987, as the proposed decision does, we should use the recorded figures as of September 1, 1987. Edison's request is reasonable. Edison suggests a clarification of the effective date of the order and our description of the AER, which we shall make. Edison comments that our use of oil generation expense of $28.35 million is erroneous

and should be $32.0 million. We have reviewed our figures and they are accurate.

Edison has filed a motion to consolidate Commission consideration of the accounting issues related to PSD's fixed fuel oil inventory carrying costs proposal in this application with Pacific Gas & Electric Company's A.87-04-005, in which Edison has appeared and in which the same issues arise.

PSD opposes the motion on the ground that it is in effect a motion to set aside submission and reopen both this application and PG&E's A.87-04-005 to take further evidence on a consolidated record. We do not read that much into the motion. We would deny a motion to reopen, but we understand this motion to merely request that the accounting procedures for fixed fuel oil inventory carrying costs found reasonable in the PG&E case be applied to Edison. Edison's motion "requests that the Commission consolidate review of these [accounting] issues in PG&E's ECAC proceeding and issue a single decision...." We will grant Edison's motion as follows: To the extent that the decision in PG&E's A.87-04-005 establishes accounting procedures for fixed fuel oil inventory carrying costs, those accounting procedures shall be adopted by Edison. In all other respects, Edison's motion is denied.

Background

Southern California Edison Company (Edison) filed Application 87-02-019 requesting authority to make certain changes to its rate levels that result in a net decrease in revenues for the 1987 Forecast Period (June 1, 1987 to May 31, 1988) of approximately $111.4 million from present rate revenues on an annual basis calculated in accordance with the revenue allocation and rate design parameters established in Edison's 1985 general rate case, Decision (D.) 84-12-068, and were to be reflected in changes to Edison's Energy Cost Adjustment Clause (ECAC), Energy Cost Adjustment Billing Factors (ECABF) and Electric Revenue Adjustment Billing Factor (ERABF). Edison also requested:

- An order that ECAC rates be adjusted to reflect energy costs savings attributable to Palo Verde Nuclear Generating Station (PVNGS 3) and Balsam Meadow coincident with the implementation of rates reflecting PVNGS 3 and Balsam Meadow;

- That the Commission find reasonable the fuel and energy costs recorded in Edison's ECAC balancing account from December 1, 1985 to November 30, 1986, inclusive (the 1986 Reasonableness Period);

- That the Commission find reasonable Edison's payments to Qualifying Facilities (QFs) under nonstandard contracts during the period from December 1, 1984 through November 30, 1986; and

- Certain modifications to Edison's ECAC and Electric Revenue Adjustment Mechanism (ERAM).

The review of the reasonableness of operations for the 1986 reasonableness period and the nonstandard QF contracts will be considered in subsequent phases of this proceeding.

On April 7, 1987 Edison requested Commission authorization to decrease annual revenues by $70.5 million rather than $111.4 million based on more recent information concerning resource mix and energy prices as well as more recent recorded ECAC and ERAM balancing account information for January and February 1987. Subsequent changes in the expected initial production dates of new cogeneration facilities and changes in Edison's forecast gas generation resulted in an overall requested decrease by Edison of $78.2 million. At that time, the Public Staff Division of the Commission (PSD) recommended an annualized revenue decrease of $194 million. Later data caused both parties to revise their estimates of the decrease. Edison now forecasts a decrease of $139.4 million, while PSD forecasts a decrease of $255.4 million.

Public hearing on the forecast phase of the application was held before Administrative Law Judge Robert Barnett.

Table 1 lists the issues upon which PSD and Edison agree.

TABLE 1

1. Sales Forecast
2. Rate Design
3. Hydro Generation
4. Oil Generation
5. Coal Generation and Costs
6. Nuclear Generation and Expense
7. Palo Verde Unit 3 Fuel Savings
8. Balsam Meadow Fuel Savings
9. Distillate Quantity for Write-Down And LIFO Accounting Method
10. LSFO Write-Down Amount
11. Chevron Demand Charge
12. ECAC Balancing Account Balance at June 1, 1987
13. ERAM Rate Change at June 1, 1987
14. System Heat Rate
15. Oil Generation Expense

PSD agreed that Edison's net sales projection of 64,122 million KWh and its projected total hydro production during the forecast period of 3,633 gigawatt-hours (gWh) were reasonable.

PSD and Edison agree on the quantity (barrels) of low sulfur fuel oil (LSFO), distillate, jet fuel, and diesel to be burned by Edison during the forecast period. PSD accepts Edison's forecast prices for oil generation expenses, turbine fuel, jet fuel, and transportation costs for diesel fuel delivered to Catalina. PSD accepts Edison's proposal to change distillate accounting to the Last-In First-Out (LIFO) method and base the resulting write-down amount on recorded market prices prior to June 1, 1987.

Edison updated its forecast coal generation and expense to reflect gas requirement decreases at both Mohave and Four Corners which reduced gas expenses at these facilities. PSD agreed with Edison's original forecast of generation and expense and did not object to the updated forecast.

PSD and Edison agree on forecast nuclear generation and expense. PSD concurs with Edison's request that the forecast uranium ore expenses be included 100 percent in the ECAC balancing account.

Energy produced by Palo Verde Nuclear Generating Station Unit 3 (PVNGS 3) will displace production from gas-fired generating units. Edison requests that the energy cost savings attributable to the operation of PVNGS 3 be reflected in ECAC rates through the Average Energy Cost Adjustment Rate (AECAR) coincident with the implementation of base rates reflecting PVNGS 3. The projected ECAC revenue reduction attributable to the energy cost savings from PVNGS 3 ranges from $13 to $30 million on an annualized basis. PSD does not object to Edison's request.

The estimated annual energy savings associated with the operation of Balsam Meadow is approximately $5 million. Edison requests that the energy cost savings attributable to the operation

of Balsam Meadow be reflected in ECAC rates through the AECAR coincident with the implementation of rates reflecting Balsam Meadow. PSD does not object to Edison's request.

Approximately $42 million in termination costs for Mono Power Company's Energy Exploration and Development Adjustment (EEDA) projects are included in the ECAC balance on June 1, 1987. PSD agrees with Edison's June 1, 1987 ECAC balancing account balance. PSD and Edison agree on the June 1, 1987 ERAM balancing account balance and resultant ERAM revenue change for a June 1, 1987 revision date. Originally, Edison and PSD had agreed that the current ERAM rate (in effect prior to June 1, 1987) would result in an ERAM shortfall of $90.8 million in the forecast period. Both parties, therefore, recommended an increase in the ERAM to absorb this shortfall. We have had, however, the benefit of more current operating data and based upon that data we have determined that the shortfall in ERAM revenue is estimated to be $29.6 million rather than $90.8 million, and the parties concur. We will adopt the $29.6 million estimate. In addition, PSD and Edison agree that intervenor compensation payments should be recorded in a deferred account for future base rate recovery exclusive of any interest charges.

Table 2 summarizes the differences between PSD and Edison for forecast period fuel, purchased power, and energy related expenses.

TABLE 2

Differences Between PSD and Edison

Issue	Edison ($M[2])	PSD ($M[2])	Difference ($M[2])
Gas Volume and Price	648	614	(34)
Purchased Power Quantities and Prices	924	852	(72)
Fuel Oil Inventory Carrying Costs	6	4	(2)
Losses on Fuel Oil Sales	2	0	(2)
Third Bear Creek Termination Payment	8	0	(8)
Franchise Fees and Uncollectible Accounts Expense	19	17	(2)
Resale Accounts Allocation	(28)	(24)	4
Total Difference			(116)

A summary of the differences in the position of the parties and our adopted results are:

	Company	PSD	Adopted
ECABF	($169.0)	($460.9)	($400.3)
AER	0.0	175.9	175.9
ERAM	29.6	29.6	29.6
Annual Revenue Change	($139.4)	($255.4)	($194.8)

Natural Gas Generation and Expense

PSD and Edison projected different spot market gas prices and gas margins to be paid to Southern California Gas Company (SoCal). PSD and Edison also forecast differences in

Edison's gas generation which are dependent on the quantity of Pacific Southwest purchased power. Edison forecasts 2,182 gWh less gas generation than PSD which is offset by an equivalent increase in Pacific Southwest purchased power. PSD's forecast of total natural gas expense is $34 million less than Edison's. Because of the rippling effect of this gas expense difference through other sources of power, over $100 million of the $116 million difference is affected, e.g. if gas is cheap, more will be bought and there is less need for purchased power.

Purchased Power Generation and Expense

The differences between PSD's and Edison's forecasts of purchased power generation and expenses are due to forecast gas price differences.

PSD and Edison agree on purchased power quantities and prices from SCE Hoover, Cholla, Mexico geothermal, Pacific Northwest (firm), California, and SCE-renewable/alternative sources.

PSD and Edison agree on quantity but differ on price for Pacific Northwest (non-firm), qualifying facilities, and "other" purchases. The difference is due solely to differences in the gas price forecast.

PSD and Edison differ on both forecast quantity and expenses for Southwest purchases. This difference is due solely to different natural gas price forecasts. The total purchased power expense difference is $72 million.

Fuel Oil Inventory Carrying Costs

PSD and Edison disagree as to the appropriate fuel oil inventory level for the forecast period, the amount of fuel oil inventory carrying costs, and the methodology for calculating fuel oil inventory carrying costs, resulting in a $2 million difference in carrying costs.

Loss on Sale of Fuel Oil Inventory

PSD and Edison disagree on the ratemaking treatment of forecast losses on the sale of fuel oil inventory. PSD proposes disallowing all such losses. Edison believes that the forecast sales and resulting losses are necessary and will result in lower overall costs to the ratepayer. The difference is about $2 million.

Third Bear Creek Termination Payment

PSD and Edison disagree on the ratemaking treatment of the third Bear Creek termination payment. PSD proposes not to include the $8 million payment in ECAC rates effective June 1, 1987. Edison believes that such a payment should be included.

Franchise Fees and Uncollectible Accounts Expense and Resale Accounts Allocation

A $6 million difference between PSD and Edison for Franchise Fees and Uncollectible Accounts expense and resale accounts allocation is due solely to other forecast fuel, purchased power, and energy-related expense differences.

Revenues Associated with Off-System Sales

PSD recommends that the adder revenue component of Edison's off-system sales be included in the ECAC procedure. Edison disagrees with PSD's proposal because such revenues are presently reflected in Edison's base rates.

Annual Energy Rate (AER)

PSD recommends reimposing a 10 percent AER because PSD believes that fuel prices are less volatile this year than they were when the Commission suspended the AER. Edison believes that the AER should remain suspended because of the uncertainty in fuel prices, primarily natural gas prices, due to the Commission's ongoing gas OII/OIR.

Discussion

AER

The AER is a mechanism to provide an incentive to the utility's management to reduce its fuel and purchased power expenses and to have a direct stake in its fuel management decisions. It is a fixed rate, a percentage of the ECAC, not subject to balancing account treatment. Whether to reimpose the AER is the most important issue in this case because without an AER our choice of one forecast or the other, or one of our own, has little overall impact. A low forecast causes ratepayers to make up the shortfall through the ECAC; a high forecast would cause a refund. In either case Edison is made whole and has no risk. Individual ratepayers, however, would be at risk. The ones who pay in the forecast year may not be the same ones who are affected by the ECAC account in the following year, and Edison has little incentive to keep costs down.

With an AER in place the utility is at risk. It will pay close attention to fuel costs, benefitting both shareholders and ratepayers. The AER makes a portion of fuel and purchased power costs recoverable on a fixed, forecast basis. Since the AER is a fixed rate, not subject to balancing account treatment, the shareholder benefits if actual fuel and purchased power expenses are less than forecast; conversely, shareholders lose if actual expenses are greater than forecast. For example, if all fuel and purchased power costs are recoverable through a balancing account (ECAC) and the forecast for 1987 was $1,000, ECAC rates would be set to recover $1,000. But if actual fuel costs exceeded $1,000 in 1987 the ratepayers would pay the excess costs through the ECAC, and if those costs were below $1,000 the ratepayers would recover the difference through the ECAC. In both instances the utility is neutral. When Edison's AER was imposed the split was 90% ECAC and 10% AER. Taking the $1,000 example, if a 10% AER were in place and if actual costs for 1987 were $100 over forecast then Edison would

only recover $90 from the ratepayers; if costs were $100 below forecast then Edison would return to ratepayers only $90. The AER gives the utility a quantifiable stake in fuel purchases.

A 10% AER was first adopted for Edison in 1982; in 1985 it was reduced to 2%; and in 1986 it was suspended entirely, the Commission stating: "We see little useful purpose in continuing the AER incentive mechanism when fuel prices are fluctuating wildly outside managerial control." (D.86-04-007 at p. 4.) PSD believes that fuel prices are no longer fluctuating wildly and, in fact, have stabilized within a comparatively narrow range. PSD therefore, recommends that a 10% AER be reinstated.

Edison opposes reinstating the AER because (1) fuel prices, particularly natural gas prices for the forecast period are beyond Edison's ability to forecast with reasonable certainty, and (2) the status quo fully protects ratepayers and shareholders. It argues that to give any real meaning to the AER as an incentive, fuel management decisions must be based on reasonable gas price forecasts and in today's gas market there is no reasonable certainty in any forecast. Under the present circumstances, any benefit or detriment to Edison's shareholders would be a windfall or penalty caused by changes in gas prices; it would not be earned by Edison's management.

Edison asserts that the natural gas industry is changing rapidly as a result of regulatory changes on both the state and federal level. This Commission, through OII 86-06-005 and OIR 86-06-006 (the gas OII/OIR), has been at the forefront in restructuring the gas industry in California and in responding to the new competitive gas marketplace. These changes, however, have led to increasing uncertainty in natural gas pricing. Any estimate of Edison's forecast period expense thus depends greatly upon an unknown and unknowable factor: the pricing policy the Commission will adopt as a result of the OII/OIR proceeding, an uncertainty that will not be resolved until September 1987 at the earliest.

The OII/OIR proceeding will alter the regulatory program for the natural gas industry and is expected to resolve the revenue allocation/rate design policy that will result from the restructuring of the gas industry.

Edison points out that natural gas prices have a significant effect on Edison's forecast of energy expense and PSD agrees that the price of gas is one of the largest items in the forecast. PSD's and Edison's forecasts of fuel and purchased power expenses differ by approximately $116 million of which approximately $100 million is attributable solely to the differing estimates of forecast natural gas prices (including the gas price effect on Edison's gas generation and purchased power mix).

Edison agrees that the AER is intended to provide an incentive to the utility to manage its energy expenses prudently, but says that the issue in this proceeding is what degree of certainty is required to justify imposing the AER. If the uncertainty in fuel prices overshadows prudent fuel management, the incentive is lacking. The standard necessarily applied to the forecast is that of reasonableness; there must be a reasonable degree of certainty in the predicted fuel expenses. Edison believes that in this proceeding there is great uncertainty in the forecast price of natural gas. This price uncertainty exists for reasons beyond Edison's control and anyone's ability to reasonably predict.

Edison does not claim that <u>any</u> uncertainty in forecast period fuel expense renders the AER inappropriate. However, it argues there must be a reasonable degree of certainty in the forecasts to justify reimposition of the AER. The Commission did not require complete uncertainty to suspend the AER; only that fuel prices could not reasonably be forecast. Due to the uncertainty of the outcome of the gas OII/OIR proceeding, no party can reasonably predict natural gas prices for the forecast period. Edison urges, therefore, that the AER should not be reimposed.

PSD cannot find the uncertainty that plagues Edison. PSD asserts that the Commission's OII/OIR proceeding adds no uncertainty to the ability to forecast gas prices as PSD's recommendation for gas prices in the OII/OIR will be comparable to that recommended in this case. PSD agrees that in this case we may adopt its recommendation from the OII/OIR. It says to accept Edison's argument would lead to the abolition of the AER as the competitive gas marketplace by definition is uncertain. Finally, PSD points out that the basic premise of the AER is to give Edison's shareholders a stake in the outcome of fuel decisions thereby putting pressure on management to make a maximum effort, not just a reasonable effort, to avoid a pass-through mentality with respect to costs.

We believe the concept of an AER mechanism is salutory and easy to understand. Its purpose is to give management an incentive to hold costs down. If they do, the utility benefits; if they don't, the utility is harmed. In the past when we refused to impose an AER or reduced an AER it was because we found the price of fuel and purchased power too volatile to be affected by management supervision. In a rapidly rising market it would be unfair to the utility; in a rapidly falling market it would be unfair to the ratepayers; and in a highly volatile market, unfair to both (although over time the savings would counterbalance each other). Our inquiry then must focus on the forecasts and their reasonableness. Our adopted gas forecast is discussed in a later portion of this decision. Here we will consider the confidence we place in the forecast being realized within reasonable margins.

In D.86-04-007 the Commission suspended the AER until further order, stating: "We see little useful purpose in continuing the AER incentive mechanism when fuel prices are fluctuating wildly outside of management control." The question now is whether fuel prices are still "fluctuating wildly outside of management control." A reading of the fuel price exhibits in this

case leads ineluctably to the conclusion that they are not. PSD and Edison agree on prices from SCE Hoover, Cholla, Mexico geothermal, Pacific Northwest (firm), California, and SCE-renewable/alternative sources, as well as hydro production, the prices for turbine fuel, jet fuel, and transportation costs, plus oil, coal, and nuclear generation expense. Purchased power prices from Pacific Northwest (nonfirm) and Southwest are agreed upon, subject only to fluctuations caused by natural gas prices. Our inquiry is reduced to determining whether gas prices are "fluctuating wildly." They are not now and we do not expect them to be during the forecast period.

We have, for example, compared Edison's projected price for all gas purchases during the forecast period, on a weighted average basis, with PSD's bulk burn price with demand charge. We do not agree that either forecast is the correct forecast to adopt for this proceeding, and have adopted a middle ground, but we believe that the forecasts demonstrate the gas prices will not "fluctuate wildly" in the forecast period.

Natural Gas Fuel Expense - 6/1/87 - 5/31/88
(¢/MMBtu)

	Jun	Jul	Aug	Sep	Oct	Nov	Dec	Jan	Feb	Mar	Apr	May	Avg
Edison (All gas weighted average)	273	256	254	254	275	282	292	310	300	289	278	275	278
PSD (bulk burn w/ demand charge)	228	215	212	216	255	274	274	274	274	255	255	255	249

The table does not show wild fluctuations; it shows the normal gas price rise from summer to winter and price drop from winter to summer. Edison's forecast shows almost no difference between its June 1987 price and its May 1988 price for gas. The

2 cent difference does not even account for expected inflation. PSD's forecast starts lower and ends lower and shows a 9% increase between the June 1987 price and the May 1988 price. In both cases the price curves track in the expected manner and do not fluctuate wildly. This is in contraposition to the wild swing that took place just prior to our D.86-04-007 when gas spot prices dropped from 275¢/MMBtu in July 1985 to 160¢/MMBtu in June 1986. Because there is excess gas available during the forecast period which will not dissipate prior to 1989, possible fluctuations in oil prices will not have an immediate parallel effect on gas prices and will not cause gas prices to fluctuate wildly. As a consequence we believe Edison's management can have an effect on gas costs and should be given the opportunity to benefit from management decisions. Therefore, we shall terminate the AER suspension and reimpose the AER at 10%.

We will also reimpose the AER cap ordered in D.82-12-105, by which AER earnings limitations are calculated as the product of jurisdictional rate base, authorized equity capitalization percentage, and a limit of 160 basis points. This cap is the same as Edison's previous AER cap.

Gas Generation Expense

As a result of a lower forecast of natural gas prices in the forecast year, PSD's estimate of natural gas costs is $34 million less than Edison's. One of the consequences of that forecast is that Edison's purchased power expense will decrease by $72 million due to reduced Southwest purchases.

Edison identified three areas which account for most of the difference between PSD's and Edison's gas expense forecasts.

- PSD assumed that the spot market price of gas would remain relatively flat over the forecast period while Edison assumed an increase of about 7.9 percent over current levels.

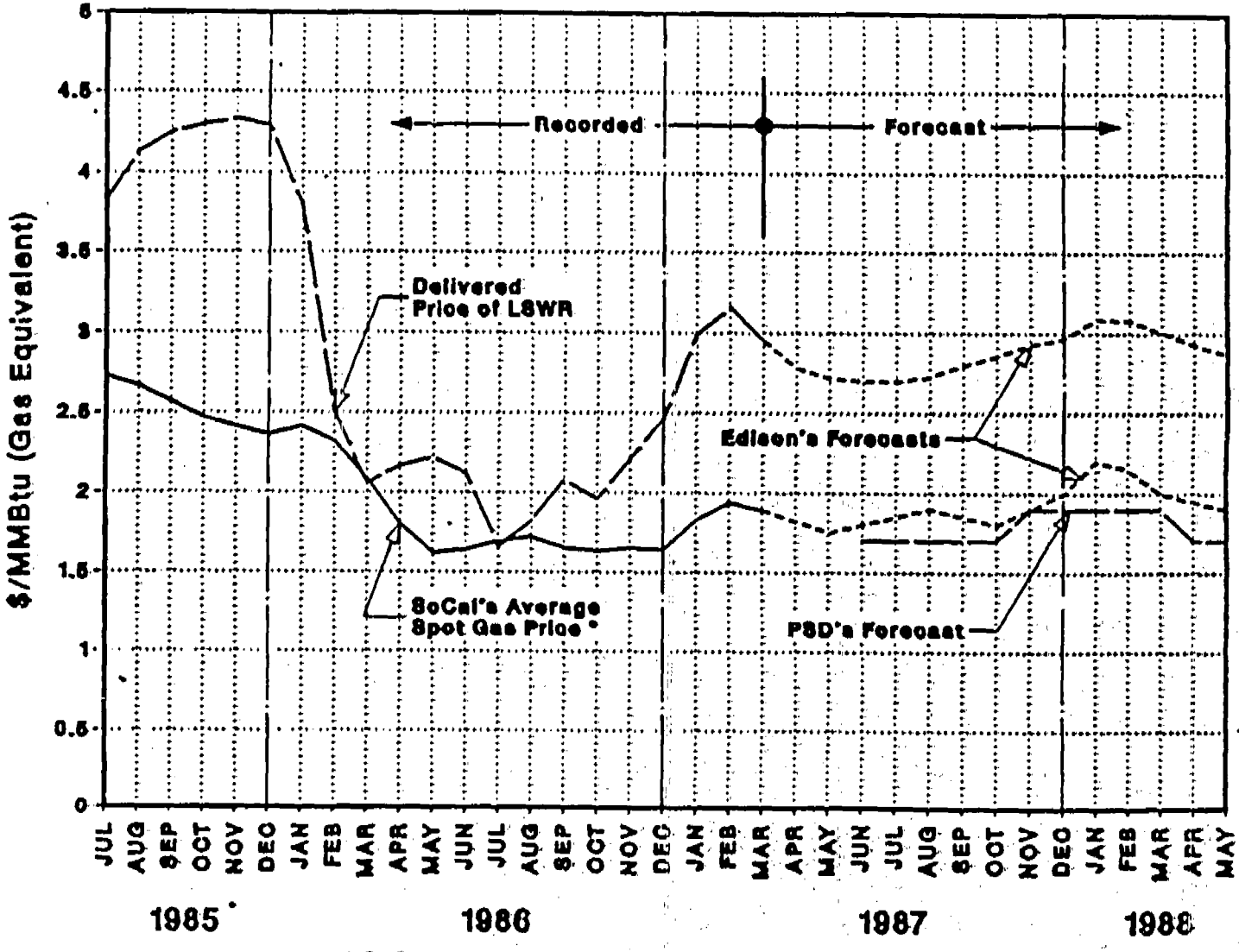
- PSD assumed Edison will purchase approximately 50 percent of its gas on the spot market during the forecast period at a discount from the

Southern California Gas Company (SoCal) spot gas price; and

- PSD assumed that Edison would pay SoCal a Utility Electric Generation (UEG) margin of $0.85/MMBtu during the forecast period while Edison forecast a margin of $1.00/MMBtu.

Edison's witness testified that Edison's updated gas price forecast recognizes the fact that the direction of spot gas prices historically has been influenced by, among other things, the competing price of low sulfur fuel oil delivered to the Southern California market. The chart on the page following entitled "Comparison of Oil and Gas Prices" shows that, as the price of oil declined sharply from December 1985 through July 1986, the spot market price of natural gas also declined substantially during that period.

Comparison of Oil and Gas Prices



* SoCal's spot bid program began in July 1985.

While he agreed with the PSD witness that spot prices of gas are at this time primarily a function of gas-to-gas competition, it was his belief that had oil prices not plummeted in early 1986, there would not have been the incentive of gas producers to cut prices to the levels experienced during the summer of 1986. The same general correlation between oil and gas prices is seen in the winter of 1986-87, where oil prices rebounded and the spot market price of gas generally improved.

The Edison witness said that PSD's spot gas forecast was developed based on data between March and December of 1986 when oil prices were approximately 45 percent below the level that existed in the first quarter of 1987. Because of the oil price rebound in 1987, and the expectation that current oil prices will generally prevail during the forecast period, it is reasonable to expect that there will be a slight increase in the spot market price of gas, rather than simply a status quo condition as forecast by the PSD.

He continued, that a second, and perhaps more significant, near-term influence on the spot market price of gas is the price of long-term gas supply, which--after a steady decline between October 1984 and March 1987--finally appeared to be stabilizing as evidenced by Transwestern's recent PGA increase on April 1, 1987. As the gas deliverability surplus continues to dissipate, he believes the spot market price of gas will rise to meet the cost of long-term supplies, exceeding that cost in the high-demand winter months. Moreover, in his opinion, the consensus in the gas industry at the present time is that spot gas prices will be firming during the forecast period rather than simply remaining flat.

He believes that Edison's updated spot gas price, which averages about $1.92/MMBtu, compares favorably with the $1.90/MMBtu spot price of SoCal, the largest spot purchaser of natural gas in California and in the nation. He said that a second corroboration of Edison's forecast was obtained when compared with Cambridge

Energy Research Associates' (CERA) most recent forecast, which may be on the conservative side.

In regard to spot gas purchases, he testified that Edison only purchased approximately 10% of its natural gas from spot sellers. He said that PSD's assumption that Edison could, or should, purchase 50% of its gas needs on the spot market was without foundation. First, from a supply security perspective, it may not be in the best interest of Edison's customers to purchase as much as 50 percent of its supply from independent spot sellers. To assume now that a purchase of 50 percent of spot supplies would be prudent during the forecast period is premature.

Secondly, he pointed out that Edison's lack of firm interstate and intrastate pipeline capacity may effectively preclude Edison, in any given month during the forecast period, from purchasing as much as 50 percent of its gas from spot sellers, let alone 50 percent on average for the entire forecast period. As an interruptible transportation customer, Edison has experienced difficulties in actually receiving all volumes of gas for which spot bids were accepted. For example, volumes bid by Pacific Gas and Electric Company (PG&E) during the months of January, February, and March 1987 were substantially reduced. Because of the constraints on Pacific Gas Transmission's (PGT) pipeline capacity, only 18 percent of the bid quantity Edison accepted from PG&E actually flowed during these months. Edison has also experienced similar conditions on Transwestern's pipeline system. Since October 1986, as a result of SoCal exercising its firm demand rights on that system, the flow of any spot gas supplies that attach to Transwestern's gathering system has been precluded. Therefore, in the winter months of the forecast period, even if Edison were willing to award spot bids of up to 50 percent of its gas demand, the likelihood of 50 percent of that gas flowing is very low.

Finally, he testified that PSD has made the assumption, based on only five months of historical price data, that Edison's spot purchases during the forecast period will carry an average price which is 95 percent of the average SoCal spot price. PSD's assumption is contrary to Edison's experience to date in the spot market. PSD overlooks the fact that the majority of bids received by Edison have actually been offered at prices above SoCal's average spot bid price. This is one reason that Edison has only purchased about 10 percent of its gas requirements in this manner. Moreover, the modest price discounts Edison has obtained to date have, in part, been related to the establishment of business relationships, such spot suppliers hoping to sell gas to Edison in the future under longer term contracts. In his opinion, it is unlikely that even the modest discounted price relationship Edison has experienced would continue to exist if Edison were able to purchase up to 50 percent of its gas via direct spot purchases. Why would spot marketers want to sell such large quantities of gas to Edison at a discount when they could sell the same gas directly to SoCal at a higher price?

In regard to UEG (Utility Electric Generation) margin (the amount paid SoCal Gas over and above its cost of gas) he testified that $1.00/MMBtu would be reasonable for the forecast period. PSD originally proposed $.85/MMBtu, but in its brief said that "$.92 is the appropriate UEG margin for the 'ceiling rate' (actual rates could be lower) and that it should be considered in determining the appropriate gas prices during the forecast period."

Edison argues that PSD's $.92 estimate should be increased by $.05 because this Commission assigned the margin shortfall resulting from service to cogeneration customers (about $0.05/MMBtu equivalent) to the UEG class (D.87-05-046, pp. 17-18) and PSD's $.92 margin does not include such subsidy.

The PSD gas forecast witness testified that the cost of short-term gas supplies will remain relatively flat for the

forecast period because, among other reasons, the current gas deliverability surplus will continue throughout the period. He expects gas prices to rise slightly during the winter heating season before falling back to Fall 1987 levels in Spring 1988. He believes that fluctuations in the price of oil will not be the driving force behind the price in spot gas, but that gas-to-gas competition and the gas deliverability surplus will keep prices stable and flat.

In regard to Edison's ability to purchase 50% of its requirements on the spot market at a price 5% below the price SoCal pays for spot gas, the witness testified that he based his opinion on recent Edison purchases below SoCal's price and that as Edison becomes more experienced in the spot gas market it will purchase greater quantities of gas.

As to the UEG margin price of $0.85/MMBtu, he based his opinion entirely on the PSD showing in the gas OII/OIR.

Because we are reinstituting the AER the forecast price of gas takes on added significance. Substantial deviations from the forecast will be costly, either to the ratepayer or the utility. Of the three areas between Edison and PSD which account for most of the differences--spot gas price, spot gas purchases, and UEG margin--the issue of spot gas purchases gives us the least difficulty. Edison's recent spot gas purchases have been between 10% and 15% of its total gas purchases. PSD believes that Edison can regularly purchase spot gas at prices 5% below those paid by SoCal and, therefore, Edison should purchase 50% of its needs on the spot market; PSD points to recent purchases by Edison which were 5% below SoCal's purchases. Edison claims those were made because the sellers were new to Edison and wished to establish a new customer relationship; Edison does not expect those discounts to continue. We agree with Edison. Not only have there been spot purchases by Edison at prices in excess of those paid by SoCal, but we are not persuaded that gas vendors would regularly sell to

Edison at a 5% discount from their price to SoCal. Nor are we persuaded that Edison could buy 50% of its gas supply on the spot market, nor that it would be a prudent policy if it could. However, given the nature of the spot market, it is probable that bargain prices will occur and that Edison will take advantage of them, especially with the incentive of the AER. For the purpose of the forecast we will assume a 10% spot market purchase at a price 5% below SoCal's price.

At the hearing the PSD-Edison difference in SoCal's UEG margin was $0.15/MMBtu. Edison estimated $1.00, PSD estimated $0.85. In its brief PSD agreed to a $0.92/MMBtu margin, the margin it recommended in the gas OII/OIR. Edison points out that the $0.92 margin does not include the $0.05/MMBtu addition that the Commission imposed on the UEG class in D.87-05-046. If Edison must pay it we should include it. Edison seeks a $1.00/MMBtu margin but we are of the opinion that $0.97 is closer to the mark, and that margin will be adopted.

The final issue is the difference in spot gas price estimates. PSD expects spot gas prices to remain relatively flat over the forecast period while Edison predicts a 7.9% average price above the actual prices in the month of May. The reason for the difference in estimates is generally that PSD believes there is a surplus of gas available during the entire forecast period and that any upward surge in oil prices will not be a significant influence on gas prices, while Edison believes the gas surplus will be dissipated during the forecast period and there will be an upward surge in oil prices which will cause gas prices to rise. We believe the Edison forecast to be too high because the evidence persuades us that the gas surplus will be available throughout the forecast period; but the PSD forecast is too low because we are persuaded that oil prices will be higher than PSD's witness expects and to some extent oil prices will drive gas prices. Under the circumstances we will adopt a forecast of gas prices on average 2¢

above that forecast by the PSD witness. Our forecast, in terms of the noncore Tier II price of SoCal Gas, is set forth in Table B-1 of Appendix B to this decision. Adopted values for other gas supplies purchased by Edison are shown in Table B-2.

Fuel Oil Inventory

Edison maintains fuel oil in inventory in order to supply forecast oil burn requirements and additional potential oil burns caused by variations or interruptions in supplies of nonoil energy resources and variations in forecast load. In addition, a portion of Edison's inventory is dictated by the physical limitations of its oil storage and transportation system. Total costs include the costs of carrying inventory, the costs of buying and selling oil, and the costs of running short of inventory and curtailing load.

The required fuel oil inventory consists of three components: (1) Dead Storage, (2) Fuel Management Requirement (FMR), and (3) Potential Oil Burn (POB). Dead Storage is the oil in the bottom of storage tanks that is not available to supply generating units, together with the pipeline-fill displacement oil essential for the operation of Edison's pipeline system. The FMR is the oil necessary to maintain acceptable distribution logistics for Edison's oil pipeline, storage, and receiving facilities, including the minimum levels of inventory necessary at each generating station to sustain operation until new supplies are received. The POB is the quantity of oil required in inventory for forecast oil burns and possible deviations in oil demand above or below the forecast level caused by changes in load, changes in production from nonoil energy resources, or unavailability of supplemental oil supplies.

Edison requests a 6.0 million barrel inventory, which includes a 3.3 million barrel POB, to reflect what it believes is a reasonable level of reliability. Edison asserts that substantial increases in reliability occur when inventory is increased above approximately 6.4 million barrels, and substantial decreases in

reliability occur for decreases in inventory below approximately 5.7 million barrels. Edison's request for 6.0 million barrels falls within this range of 5.7 to 6.4 million barrels.

Edison's 6.0 million barrel inventory request is, it says, also supported by its analysis of the cost of carrying oil in inventory versus the cost of not serving load (shortage costs). The optimum economic inventory is the inventory level at which the sum of the inventory carrying costs plus the shortage costs is minimized. Edison avers that the economic minimum inventory level falls in the range of 5.0 to 7.0 million barrels for the forecast period. Accordingly, the requested 6.0 million barrel level falls within the optimum range for both reliability and minimum overall cost considerations. PSD asserts that a 1.9 million POB is adequate within a total inventory of 4.4 million barrels.

Edison's and PSD's inventory recommendations are summarized in the table below. PSD and Edison agree that the Dead Storage inventory requirement is 1.0 million barrels and that the FMR requirement is a function of the POB.

Comparison of Oil Inventory Recommendations
(Millions of Barrels)

	SCE	PSD	Difference
Dead Storage	1.0	1.0	--
Fuel Management Requirement (FMR)	1.7	1.5	(0.2)
Potential Oil Burn (POB)	3.3	1.9	(1.4)
Total	6.0	4.4	(1.6)

Both Edison and PSD base their recommendations for the POB component of inventory on the output of Edison's Fuel Oil Requirements Analysis (FORA) probabilistic computer model.

The FORA model reflects the manner in which Edison utilizes energy resources. For each period, FORA first calls upon all nonoil/gas resources, including purchased power, to meet system load. Edison's oil/gas-fired power plants are then dispatched as needed. If gas supplies are inadequate, oil-fired generation is required. FORA utilizes all available oil resupply (new oil purchases) to meet oil-fired generation requirements, and then calculates the amount of additional oil supplies necessary to meet any remaining load. This is the amount of oil Edison must have in inventory for that period to completely satisfy load requirements. Lower amounts of inventory will result in lower reliability of service levels.

Edison maintains inventory to meet system needs until new supplies of oil can be received. That is, inventory must be sufficient to sustain system needs until new oil supplies can be expected at a delivery rate matching burn requirements. FORA evaluates inventory requirements over a forward-looking 120-day aggregation period since suppliers have advised Edison that substantial supplies of oil could not be received in less than from 90 to 120 days.

PSD asserts that Edison's estimates are exaggerated and unrealistic. The factor with the most significant impact on FORA is gas availability and PSD believes that gas availability will be adequate in the forecast period. PSD points out that Edison forecast a POB in its last ECAC filing of 1.9 million barrels and there have been no events in the past year which would call for almost doubling the POB forecast. Edison had no gas curtailments last winter and it currently has a broader group of gas suppliers than before as a result of its entry into the spot market. In the opinion of PSD Edison's claims of present natural gas regulatory and market uncertainties are unfounded. If anything, the market has stabilized when compared to recent years.

Edison asserts that its recommendation of 3.3 million barrels for the POB component of inventory reflects the latest forecast information regarding gas availability, spot market gas purchase options, regulatory and market uncertainties, forecast gas supply-demand balance, forecast oil burn, oil resupply, and purchased power availability. The difference between Edison's 1986 POB forecast of 1.9 million barrels and its 1987 forecast of 3.3 million barrels is the result of an entirely new analysis based on new forecasts of load requirement, new forecasts of the availability of resources, and new forecasts of oil resupply availability. The three principal factors in Edison's increased POB are gas availability, oil resupply, and purchased power.

Edison argues that gas availability will decrease by 17% from 1986 levels. It says that the present gas deliverability surplus is dissipating and that SoCal's forecast of gas available to Edison shows a decrease of 4%. When these numbers are factored for regulatory uncertainty and potentially cold years a 17% estimated reduction in gas availability is reasonable. Edison says that oil resupply availability has lessened in the past year. Its analysis shows that short-term (1-2 month) oil availability had slightly decreased from the 1986 forecast, while long-term availability had slightly increased, resulting in an increase in inventory requirements. Finally, Edison points out that Northwest purchased power is down by 4% from 1986 due to lower water run-off projected for 1987 and that the amount of energy received from Hoover Dam has decreased by 67% from last year's forecast.

Edison has not persuaded us to increase the POB from 1.9 million barrels. Its argument that because changes to its FORA program resulted in an increased POB estimate we should accept the new estimate is not convincing. In our opinion the factors which support the FORA program have not changed sufficiently to require an increase in POB. The weight of information regarding the dissipation of the gas deliverability surplus is to the effect that

any possible dissipation will not occur until after the 1987-1988 forecast year. Although one forecaster suggests that a tight gas supply could emerge as early as 1987-88, others say the surplus will last through the late 1980's, and the California Energy Commission predicts gas dissipation will not occur prior to 1989 at the earliest, while PSD predicts 1995. Edison's evidence regarding oil resupply shows that short-term oil availability "had slightly decreased from the 1986 forecast." That "slight decrease" cannot support a 74% POB increase, even when considered with other changes. Edison's projected reduction in purchased power availability does not support a POB increase. Pacific Northwest purchases may be down 4%, but that is statistically insignificant in this kind of analysis, and Hoover power, while down a significant 67%, accounts for less than 1/2 of 1% of Edison's total resources mix, again statistically insignificant when compared to the requested increase in POB. We will adopt the PSD estimate of 4.4 million barrels of oil inventory.

Inventory Cycling

Edison recommends that it be permitted to recover the loss caused by cycling its oil inventory. Cycling is a practice by which inventory levels are seasonally adjusted to reflect changing inventory requirements, necessitating purchases of oil (about 2.5 million barrels) in the fall of 1987, and equivalent sales in the spring of 1988. This inventory cycling allows Edison to maintain a lower overall average inventory level while preserving needed reliability. The only alternative to cycling without sacrificing reliability is to maintain the highest quantity needed for winter reliability throughout the entire forecast period. When cycling inventory, however, Edison expects to incur losses on the oil purchase and sale transactions due to the quantities involved and their "off-season" nature, i.e., selling in the spring as demand weakens while buying in the fall as demand firms. Edison asserts that cycling is economical to ratepayers because the carrying cost

savings realized from the lower inventory level more than offset the expected losses on the oil sales.

Edison estimates its carrying costs at $6.1 million based on its requested fuel oil inventory level (FOIL) of 6.0 million barrels and its losses from cycling at $1.7 million. Edison asserts that its peak winter fuel requirement of 8.3 million barrels would have to be carried at a cost of $8.3 million if it is not permitted to recover its losses from cycling.

PSD opposes Edison's cycling proposal on the ground that no showing was made that Edison would have to cycle 2.5 million barrels. It argues that Edison's proposal is based on an unsubstantiated prediction of a POB of more than 5 million barrels per month in the winter of 1987-88, a peak which is 2 million barrels higher than Edison estimated for the last forecast period and 3.5 million barrels higher than the most severe recent oil burn which occurred in December 1985.

As an alternative to Edison's cycling proposal, PSD recommends that the Commission provide Edison a guaranteed fixed sum each forecast period, for which the company would manage the oil inventory on its own. Edison would be responsible for buy, sell, and hold decisions and absorb all losses and keep any profits it might incur from any inventory cycling it judged necessary. This approach would provide Edison's management with increased flexibility and responsibility while simplifying regulatory review and accounting procedures.

PSD recommends fixed FOIL carrying costs based on a 4.4 million barrel inventory times a fixed LIFO weighted average price of low sulphur fuel oil (LSFO) and distillate times the average forecast period short-term interest rate, which should be trued up to reflect actual short term rates at the end of the forecast period. In return, Edison can cycle its inventory at its own risk, keeping any profits from economic oil sales, and absorbing any losses from uneconomic oil sales.

In its reply brief Edison states that the PSD proposal "imposes a risk of recovery on the fuel oil inventory asset similar to any other rate base asset because balancing account treatment would be removed, and carrying costs would be fixed" and that this is inconsistent with the reasoning used to remove FOIL from rate base and finance it at a short-term interest rate.

The evidence persuades us that Edison should be permitted to cycle oil. Also, we are concerned that our authorization of a short-term interest rate is inconsistent with leaving Edison at risk for gain or losses on sales, as PSD proposes. Consequently, we cannot agree that the PSD revised proposal provides a reasonable method of protecting Edison from substantial loss. Based on Edison's theory that it would not cycle unless the savings realized from the lower inventory level more than offset the expected losses on the oil sales, we are potentially penalizing Edison for an action that is to the overall benefit of ratepayers. The ratepayers benefit because Edison is minimizing overall expense, rather than maintaining the inventory at a constant, higher than necessary, level.

Consequently we will treat Edison's oil inventory levels and cycling amounts as follows. Edison will be authorized ECAC-AER rates at the 4.4 million barrel level. Edison will establish a memorandum account that will debit 90% of carrying costs, at the short-term interest rate, on the difference between recorded inventory levels and the authorized 4.4 million barrel level. It will also debit 90% of any losses (or credit 90% of any gains) incurred in cycling fuel oil. The account balance will be considered in Edison's next ECAC case with Edison bearing the burden of proof that the actual inventories and purchases and sales were reasonable, for possible recovery of the memorandum account balance through ECAC rates.

The Third Bear Creek Payment

Effective June 30, 1985, Edison entered into an agreement with the Bear Creek Uranium Company to terminate long-term uranium supply contracts in exchange for a payment by Edison of $63.9 million. The third and last payment of $8.025 million was made to Bear Creek on July 1, 1987, and was booked into the ECAC balancing account. The extent to which Edison will be able to recover this termination payment will be decided in A.86-02-005/OII 85-05-002, now pending before the Commission.

Edison proposes to include the third Bear Creek payment in ECAC rates for the forecast period. PSD opposes this recommendation on the ground that Edison's proposal is unprecedented. PSD argues that the $8.025 million is a lump sum settlement payment. A prior $350 million lump sum settlement payment by Edison in 1985 was included in the balancing account, but was not reflected in ECAC rates because it did not offer a fuel related benefit. The Bear Creek payment merely extinguishes a past obligation and offers no fuel-related benefits during the forecast period.

Edison maintains that the PSD recommendation is contrary to express Commission policy regarding the consistent ratemaking treatment of all fuel-related expenses. The Commission has stated that "it is appropriate to provide consistent rate treatment for all fuel-related expenses." (D.82-12-105, p. 42.) PSD's proposal would treat the third Bear Creek termination payment in a manner inconsistent with all other fuel-related expenses and contrary to express Commission policy.

In its discussion of the Chevron Option Agreement demand charges, the Commission stated:

> "PSD apparently opposes ECAC recovery of the demand charge until the entire agreement can be reviewed for reasonableness. We would allow Edison to recover the demand charge in ECAC rates . . . PSD has not offered any reason why recovery through ECAC now and a subsequent

> reasonableness review are incompatible. For forecast purposes only, the demand charge would be recognized now and reflected in rates." (D.86-04-058, p. 24.)

In our opinion, PSD's position is contrary to the best interests of the ratepayers and should be rejected. The Bear Creek payment in now recorded in the ECAC balancing account and earning interest. Placing it in rates now eliminates the interest accrual as the amortized payments are received. PSD would have us delay this collection for another year thereby causing an additional year's interest. Whether the payment is amortized this year or next year it is still subject to a reasonableness review and potential refund. Delay only costs the ratepayers.

Revenues Associated with Off-System Sales

Off-system sales are sales of energy made by Edison using generation sources that at the time of delivery are not fully utilized. Edison makes off-system sales at a contract cost equal to the incremental energy cost, plus a specified percentage of the total incremental generation cost (the adder) plus a 0.2 mill per kWh operation and maintenance (O&M) cost. The incremental fuel revenue component represents Edison's incremental fuel costs required to generate electricity for off-system sales. The adder revenue component is a percentage of the incremental fuel component and is intended to recover indirect and overhead costs, not recovered in Edison's base rates, associated with these sales. The O&M component recovers Edison's O&M expenses incurred for these sales. PSD recommends that the adder revenue, or "profit" component as PSD denotes such revenue, of off-system sales should be subject to the ECABF/AER percentage split based upon Commission D.85-10-050.

Under Edison's ECAC procedure, the incremental fuel revenue component of off-system sales is credited to the ECAC balancing account. The O&M and adder revenue components are reflected as reductions to Edison's base rates. Thus, Edison

asserts, its present ECAC ratemaking treatment for off-system sales is reasonable because it ensures that Edison's ratepayers are not charged with energy costs already recovered through billed revenues and receive proper credit of the O&M and adder revenue components in the base rate cost of service calculation.

PSD argues that in D.85-12-050 (PG&E, A.84-04-028) the Commission ordered that:

> "Commencing with the August 1984-July 1985 sales forecast covered by this proceeding, all fuel expense, revenue and profit related to economy energy sales will be subject to the 91%/9% ECAC/AER split. PG&E may continue to apply 0.2 mills/kWh to cover O&M expenses related to these sales." (D.85-12-050, p. 22.)

PSD recommends that this same Commission policy should be adopted for Edison. Although PG&E is a combination gas and electric company and Edison is an electric utility, PSD suggests that the Commission resolved this difference when it stated that:

> "The subsidy that presently occurs between PG&E's electric and gas departments, as a result of economy energy sales should be eliminated by appropriate internal accounting changes." (Id. at 23.)

PSD believes that the Commission policy on economy energy sales adopted in D.85-10-050 reflects the Commission's current position on this issue to achieve a consistent ratemaking approach for both of these ECAC utilities. If the Commission adopts the same policy on economy energy sales for Edison as it adopted in D.85-10-050 for PG&E, the estimated off-system revenues credit reflected in Edison's current general rate case proceeding A.86-12-047 should be adjusted accordingly. In the future, the issue of economy energy sales should be handled in Edison's ECAC proceedings.

Edison argues that PSD's recommendation would inappropriately introduce nonfuel expenses associated with off-system sales such as O&M, depreciation, rate of return, and income

taxes into Edison's ECAC procedure, and would result in a mismatching of revenues and expenses in the ECAC procedure which would not be in conformance with established, Commission-approved ECAC policies and procedures (D.93895, p. 7), and therefore should be rejected. Edison points out that PSD's recommendation is based solely upon D.85-10-050 and submits that the facts and circumstances leading to that decision are dissimilar to Edison's position. PG&E is a gas and electric utility. D.85-10-050 attempted to remedy an interdepartmental subsidy created by sales of economy energy which effectively subsidized PG&E's gas department for the sale. PG&E's interdepartmental sales are completely different from Edison's off-system sales because Edison's off-system sales do not subsidize any other Edison entity. Edison says that PSD erroneously applied the result of D.85-10-050 to Edison, and incorrectly concluded that the Commission should impose the same ratemaking treatment to Edison for its off-system sales. PSD's proposal should be rejected because it failed to demonstrate any reason to change the present treatment for Edison's off-system sales that reasonably account for Edison's revenues.

We agree with Edison for the reasons stated and note that transferring revenue and associated expenses from base rates to a balancing account is contrary to the reasoning that PSD urges in support of its ECAC/AER split.

Offer of Proof for Proposed Exhibits 28 and 29

Edison offered in evidence Exhibits 28 and 29. Exhibit 28 is entitled the Prepared Testimony of Charles G. Thompson and supposedly rebuts, with facts and opinion, the testimony offered orally and in writing by PSD's witnesses on fuel oil inventory and pricing issues. Exhibit 29 is entitled the Prepared Rebuttal Testimony of James W. Yee and supposedly rebuts, with facts and opinion, the testimony offered orally and in writing by PSD's witnesses on ratemaking and Commission policy issues. On the

motion of PSD, Exhibits 28 and 29 were excluded from the record on the grounds that they are argumentative, not factual, and not rebuttal.

Edison asserts that Exhibits 28 and 29 take issue with the opinions expressed by PSD's witnesses and are admissible. Edison offered the expert opinion testimony of Messrs. Thompson and Yee to rebut PSD's oral and written opinion testimony. Edison argues that the expert opinion testimony offered to contradict PSD's position and to explain PSD's analytical errors is not argument, but valid rebuttal evidence. It claims it is the only evidence the company could offer to address the opinion evidence and recommendations made by PSD. If such rebuttal opinion testimony is considered to be argument and thus inadmissible, PSD receives a distinctly unfair advantage: PSD may state its recommendations based on its opinions in the evidentiary record, but no contrary opinion testimony can be offered to refute PSD's position.

PSD supports the ALJ's ruling. It argues that the ALJ was properly applying the Commission standard that "rebuttal testimony should be limited to factual presentations, rather than testimony that is merely argumentative or contradictory of other parties." (D.85-06-112, pp. 101-102.)

We have reviewed Exhibits 28 and 29 and find that they are argumentative and were properly excluded. We note that the ALJ in his ruling observed that the substance of the exhibits was argument more appropriate to a brief; and in reading Edison's briefs we find whole sections of the exhibits set out in the briefs. (Cf. Ex. 29, pp. 36-54 with Edison Brief, pp. 53-66.)

Coordination of Rate Changes
With Other Decisions

On April 13, 1987, Edison requested that we consolidate the rate relief in this decision with our decision in A.85-05-055 (the Chevron Proceeding) and A.86-02-005 (the Uranium Proceeding).

Edison requested that any increase to the Chevron settlement rate authorized in the Chevron Proceeding be applied in an equal and opposite amount to the ECAC balancing rate found reasonable in this decision, thereby resulting in no change to the ECABF and no rate level change to ratepayers. Edison also requested a similar treatment for the uranium contract settlement rate change. On May 31, 1987, we issued D.87-05-021 in the CLMAC Proceeding A.86-07-041 which, among other things, authorized a reduction in CLMAC rates of about $25 million on an annualized basis.

On June 15, 1987, we issued D.87-06-021 in the Chevron Proceeding which authorized Edison to recover the Chevron settlement payment over a two and one-half year period, requiring an increase in the range of $175 to $185 million on an annualized basis. In D.87-06-021, we said that to coordinate the significant revenue changes due to Edison's Chevron Proceeding, its ECAC A.87-02-019, its Conservation Load Management Adjustment Clause case (CLMAC) A.86-07-041, and its 1988 test year rate case A.86-12-047, Edison should recover the authorized portion of the Chevron settlement through an increase in ECAC rates to the extent that the increase can be offset by a decrease of the ECAC rates found appropriate in A.87-02-019 and the CLMAC rates found appropriate in D.87-05-021. In the Uranium Proceeding we found that Edison should recover certain uranium costs, which we have determined to be $75 million, subject to reasonableness review (D.87-10-042).

We will consolidate the rate relief in this decision with the relief granted in D.87-06-021 (the Chevron settlement), D.87-10-042 (the Uranium Proceeding), and D.87-05-021 (the CLMAC case), because we believe it appropriate for rate stability purposes to coordinate the rate changes. Based upon the $25 million rate reduction in CLMAC rates found appropriate in D.87-05-021 and the net decrease in rates authorized in this decision, it is reasonable to increase the Chevron settlement rate

by an equal amount so that the ratepayers will see no change in their bills as a result of these rate actions. The resulting rates are set forth in Appendix C.

Findings of Fact

1. Fuel prices in the current market are sufficiently stable to permit forecasting with a reasonable expectation that the forecast will be realized within reasonable margins.

2. There will be a surplus of natural gas available during the forecast period and any upward surge in oil prices will have some influence on gas prices but not as substantial an influence as Edison predicts.

3. Edison should be expected to purchase natural gas on the spot market to meet at least 10% of its requirements at a price about 5% lower than prices SoCal pays for spot gas.

4. The UEG margin should be estimated at $0.97/MMBtu.

5. Gas prices overall in the forecast period should be estimated at an average of $0.02 per MMBtu above that forecast by the PSD witness.

6. PSD and Edison agree as to the characterization and function of Edison's three components of inventory: Dead Storage, Fuel Management Requirement, and Potential Oil Burn.

7. PSD and Edison agree that 1.0 million barrels is reasonable for Dead Storage and that FMR is a function of POB.

8. PSD's adjustment to Edison's FMR request is based solely on PSD's lower POB recommendation.

9. Because fuel oil in inventory is financed at the short-term interest rate, it should be a low-risk investment.

10. The PSD estimate of 4.4 million barrels of fuel oil inventory (consisting of Dead Storage, 1.0; FMR, 1.5; and POB, 1.9,) is reasonable for prospective authorization in rates.

11. Edison has proposed to write down to market value its distillate inventory and implement LIFO accounting in the same manner as the LSFO write down authorized in D.86-12-096. PSD

agrees that a write down of fuel oil inventory is in the best interests of the Company and the ratepayers.

12. Edison's LSFO and distillate inventories write-down proposal which provides for 100 percent balancing account recovery and exact recovery of the write-down amount as authorized by D.86-12-096 is reasonable. Any under- or over-collection would be reflected in future rates through the ECAC balancing account.

13. Edison's adder revenue for off-system sales of electricity is currently reflected in the calculation of Edison's base rates and should remain in base rates.

14. It is reasonable to include the third Bear Creek payment in the ECAC balancing account.

15. Edison's ratemaking treatment of off-system sales is reasonable.

16. Edison's oil generation forecast and oil prices are reasonable.

17. Edison's estimates of sales forecast, hydro generation, oil generation, coal generation and costs, nuclear generation and expense, and system heat rate are reasonable for the forecast period.

18. Except as modified by these findings, Edison's forecast of resource mix and associated fuel expense is reasonable.

19. The proposed adjustments by Edison to the ECABF resulting from energy savings associated with Palo Verde Nuclear Generating Station Unit 3 and Balsam Meadow are reasonable and should be made coincident with the implementation of rates which reflect PVNGS 3 and Balsam Meadow.

20. Edison may record intervenor compensation payments in a deferred account for future base rate recovery exclusive of any interest charges.

21. Costs associated with EEDA project Nos. 76-02E, 80-01B, 80-02E, and 80-03E have been determined in A.86-02-011 and have not been considered in this proceeding.

22. Edison's ECAC balancing account balance at June 1, 1987 is accurate and reasonable.

23. Edison's and PSD's agreed upon ERAM rate change at June 1, 1987 is reasonable and should be adopted.

24. The annualized revenue change authorized by this decision is:

ECAC	($400.3) million
AER	175.9
ERAM	29.6
Annual Revenue Change	($194.8) million

Calculations of adopted ECAC and AER rates are shown on Tables B-3 and B-4 of Appendix B to this decision.

25. The change in rates and charges authorized by this decision is justified and is reasonable; the present rates and charges insofar as they differ from those prescribed by this decision, are unjust and unreasonable. The adopted rates are set forth in Appendix C.

Conclusions of Law

1. The suspension of the AER should be terminated and the AER reinstated at 10% of (i) new fuel and purchased power expenses applicable for inclusion in ECAC, (ii) the revenue requirement associated with fuel oil inventory, and (iii) underlifts, facility charges, and gains or losses from the sale of fuel oil. A cap on the AER, either upward or downward, should be imposed based on the product of jurisdictional rate base, authorized equity capitalization percentage, and 160 basis points.

2. Edison should be allowed to recover 100% of the costs associated with the Mono Power Company's EEDA projects' termination costs in the ECAC balancing account, subject to refund pending a further reasonableness review.

3. Edison should be allowed 100 percent recovery in the ECAC balancing account of uranium costs associated with forecast period nuclear fuel expense.

4. Edison should be permitted to cycle its fuel oil inventory.

5. FOIL carrying costs should be fixed prospectively based on a 4.4 million barrel inventory times a fixed LIFO weighted average price of LSFO and distillate times the average forecast period short term interest rate, which should be trued up at the end of the forecast period to reflect actual short term rates. Variations in inventory carrying costs and gain and losses on cycling will be treated as described in this decision for later potential recovery through ECAC.

6. The Chevron Option Agreement settlement rate set forth in D.87-06-021 in A.85-05-055, the uranium settlement rates set forth in D.87-10-042 in A.86-02-005, and the CLMAC rates set forth in D.87-05-021 in A.86-07-041 should be reflected in ECAC rates.

7. The rates set forth in Appendix C of this decision are adopted.

O R D E R

IT IS ORDERED that:

1. A ten percent annual energy rate (AER) is reinstated for Southern California Edison Company (Edison) composed of Edison's (i) new fuel and purchased power expenses applicable for inclusion in ECAC, (ii) the revenue requirement associated with fuel oil inventory, and (iii) underlifts, facility charges, and gains or losses from the sale of fuel oil. A cap on the AER, either upward or downward, is imposed based on the product of jurisdictional rate base, authorized equity capitalization percentage, and 160 basis points.

2. Edison may write down to market value its distillate inventory and implement LIFO accounting in the same manner as the LSFO write down authorized in D.86-12-096. This write down shall be recovered 100% in the ECAC balancing account.

3. Edison may recover 100% of the costs associated with Mono Power Company's EEDA projects' termination in the ECAC balancing account, subject to refund pending a further reasonableness review.

4. Edison may recover in the ECAC balancing account 100% of its uranium costs associated with forecast period nuclear fuel expense.

5. Edison may cycle its fuel oil inventory.

6. The third Bear Creek payment should be included in the ECAC balancing account.

7. The Chevron Option Agreement settlement rate set forth in D.87-06-021 in A.85-05-055, the uranium settlement rates set forth in D.87-10-042 in A.86-02-005, and the CLMAC rates set forth in D.87-05-021 in A.86-07-041 should be reflected in ECAC rates.

8. The proposed adjustments by Edison to the ECABF resulting from energy savings associated with Palo Verde Nuclear Generating Station Unit 3 and Balsam Meadow should be made coincident with the implementation of rates which reflect PVNGS 3 and Balsam Meadow.

9. Edison may record intervenor compensation payments in a deferred account for future base rate recovery exclusive of any interest charges.

10. Edison may file on 7 days' notice to the Commission and to the public tariffs setting forth the adopted rates set forth in Appendix C of this decision.

11. Edison's motion to consolidate Commission consideration of the accounting issues related to PSD's fixed fuel oil inventory carrying costs is granted as follows: To the extent that the decision in Pacific Gas & Electric Company's A.87-04-005 establishes accounting procedures for fixed fuel oil inventory

carrying costs, those accounting procedures shall be adopted by Edison. In all other respects, Edison's motion is denied.

This order is effective today.

Dated November 13, 1987, at San Francisco, California.

STANLEY W. HULETT
President
FREDERICK R. DUDA
G. MITCHELL WILK
JOHN B. OHANIAN
Commissioners

Commissioner Donald Vial, being necessarily absent, did not participate.

I CERTIFY THAT THIS DECISION WAS APPROVED BY THE ABOVE COMMISSIONERS TODAY.

Victor Weisser, Executive Director

APPENDIX A

List of Appearances

Applicant: Frank J. Cooley, Deborah La Combe, and Bruce A. Reed, Attorneys at Law, for Southern California Edison Company.

Interested Parties: Lindsay, Hart, Neil & Weigler, by Michael P. Alcantar and Clyde E. Hirschfeld, Attorneys at Law, and Paul J. Kaufman, Drazen-Brubaker & Associates, Inc., by Donald W. Schoenbeck, for Cogenerators of Southern California; Grueneich & Lowry by Dian Grueneich, Attorney at Law, for California Department of General Services; Michael Weinstein, Attorney at Law, for San Diego Gas & Electric Company; Brobeck, Phleger & Harrison, by Gordon E. Davis, Attorney at Law, for California Manufacturers Association; Michel Peter Florio, Attorney at Law, and Sylvia M. Siegel, for Toward Utility Rate Normalization (TURN); John D. Quinley, for Cogeneration Service Bureau; Jeff Nahigian, for JBS Energy and David Branchcomb, Henwood Energy Services, Inc.; Norman Furuta, Attorney at Law, for Federal Executive Agencies; Graham & James, by Boris H. Lakusta, Martin Mattes, and Robert Lopardo, Attorneys at Law, for California Hotel Motel Association; Judith Alper, Attorney at Law, for Independent Power Corporation; Morse, Richard, Weisenmiller & Associates, by Sarah Nickerson, for Robert Weisenmiller of MRW, Inc.; and Barbara R. Barkovich, for herself.

Public Staff Division: Gregg Wheatland, Attorney at Law, and Bill Lee.

(END OF APPENDIX A)

APPENDIX B
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Table B-1
Southern California Edison Company
1987-1988 ECAC/AER
Tier II Gas Prices

Month	SoCal Gas Tier II/Noncore Prices ($/MMBTU)		
	Edison	PSD	Adopted
Jun '87	$1.95	$1.85	$1.85
Jul	2.00	1.85	1.85
Aug	2.05	1.85	1.85
Sep	2.00	1.85	1.85
Oct	1.95	1.89	1.92
Nov	2.05	2.09	2.12
Dec	2.15	2.09	2.12
Jan '88	2.35	2.09	2.12
Feb	2.30	2.09	2.12
Mar	2.15	1.89	1.92
Apr	2.10	1.89	1.92
May	2.05	1.89	1.92
Average	$2.092	$1.944	$1.963

Table B-2
Southern California Edison Company
1987-1988 ECAC/AER
Adopted Gas Price Forecasts

GAS PRICES $/MMBtu	Jun	Jul	Aug	Sep	Oct	Nov	Dec	Jan 88	Feb	Mar	Apr	May	Avg
SoCal													
Fixed: M$	$8,995	$8,995	$8,995	$8,995	$20,630	$15,151	$14,752	$12,924	$10,504	$13,373	$7,818	$8,645	$11,648
$/MMBtu	$0.484	$0.352	$0.321	$0.360	$0.820	$0.820	$0.820	$0.820	$0.820	$0.820	$0.820	$0.820	$0.673
Tier I/Core	$3.441	$3.441	$3.441	$3.441	$2.390	$2.390	$2.390	$2.390	$2.390	$2.390	$2.390	$2.390	$2.740
Tier II/NonCore	$1.850	$1.850	$1.850	$1.850	$1.920	$2.120	$2.120	$2.120	$2.120	$1.920	$1.920	$1.920	$1.963
PG&E													
Units 1 & 2													
Fixed: M$	$47	$93	$93	$89	-	-	-	-	-	-	-	-	
$/MMBtu	-	-	-	-	$0.820	$0.820	$0.820	$0.820	$0.820	$0.820	$0.820	$0.820	
Commodity	$2.174	$2.174	$2.174	$2.174	-	-	-	-	-	-	-	-	
Core (P2A Requirement)	-	-	-	-	$1.990	$1.990	$1.990	$1.990	$1.990	$1.990	$1.990	$1.990	
NonCore	-	-	-	-	$1.990	$1.990	$1.990	$1.990	$1.990	$1.990	$1.990	$1.990	
Units 3 & 4													
Fixed: M$	$158	$158	$158	$158	-	-	-	-	-	-	-	-	
$/MMBtu	-	-	-	-	$0.820	$0.820	$0.820	$0.820	$0.820	$0.820	$0.820	$0.820	
[redacted]ity	$2.390	$2.390	$2.390	$2.390	-	-	-	-	-	-	-	-	
[redacted] (P2A Requirement)	-	-	-	-	$1.990	$1.990	$1.990	$1.990	$1.990	$1.990	$1.990	$1.990	
NonCore	-	-	-	-	$1.990	$1.990	$1.990	$1.990	$1.990	$1.990	$1.990	$1.990	

Coolwater Fixed Charges (M$)	Jun	Jul	Aug	Sep	Oct	Nov	Dec	Jan 88	Feb	Mar	Apr	May	Total
PG&E (CW1&2) Demand Costs	$47	$93	$93	$89	$34	$34	$34	$35	$36	$36	$36	$36	$604
PG&E (CW3&4) Demand Costs	$158	$158	$158	$158	$162	$162	$162	$162	$153	$162	$162	$153	$1,906
Long Beach	$1.850	$1.850	$1.850	$1.850	$1.920	$2.120	$2.120	$2.120	$2.120	$1.920	$1.920	$1.920	$1.963
ARCO	$1.758	$1.758	$1.758	$1.758	$1.824	$2.014	$2.014	$2.014	$2.014	$1.824	$1.824	$1.824	$1.865
Mobil	$1.758	$1.758	$1.758	$1.758	$1.824	$2.014	$2.014	$2.014	$2.014	$1.824	$1.824	$1.824	$1.865
WPC	$1.665	$1.665	$1.665	$1.665	$1.728	$1.908	$1.908	$1.908	$1.908	$1.728	$1.728	$1.728	$1.767
Spot	$1.758	$1.758	$1.758	$1.758	$1.824	$2.014	$2.014	$2.014	$2.014	$1.824	$1.824	$1.824	$1.865
Bulk Burn	$1.841	$1.841	$1.841	$1.841	$1.910	$2.109	$2.109	$2.109	$2.109	$1.910	$1.910	$1.910	$1.954

Gas Rates ($/MMBtu)	Jun	Jul	Aug	Sep	Oct	Nov	Dec	Jan 88	Feb	Mar	Apr	May	Avg
Bulk Burn Price													
w/o Demand Charge	$1.841	$1.841	$1.841	$1.841	$1.910	$2.109	$2.109	$2.109	$2.109	$1.910	$1.910	$1.910	$1.954
w/ Demand Charge	$2.325	$2.193	$2.162	$2.200	$2.730	$2.929	$2.929	$2.929	$2.929	$2.730	$2.730	$2.730	$2.627
Axis	$2.150	$2.200	$2.250	$2.200	$2.150	$2.250	$2.350	$2.550	$2.500	$2.350	$2.300	$2.250	$2.292
Fou[redacted]ers	$2.600	$2.650	$2.700	$2.650	$2.600	$2.700	$2.800	$3.000	$2.950	$2.800	$2.750	$2.700	$2.742
Mah[redacted]													
Fixed: M$	$6.5	$6.5	$6.5	$6.5	$15.0	$15.0	$15.0	$15.0	$15.0	$15.0	$15.0	$15.0	$12.165
Commodity	$2.450	$2.450	$2.450	$2.450	$2.470	$2.670	$2.670	$2.670	$2.670	$2.470	$2.470	$2.470	$2.530

Table B-3
Southern California Edison Company
1987-1988 ECAC/AER
Calculation of Adopted ECAC Rate

LINE NO	ITEM	FORECAST COSTS ($M)
1	OIL	$28,350
2	GAS	654,957
3	COAL	113,077
4	NUCLEAR(NON-URANIUM PORTION)	131,757
5	PURCHASED POWER	870,500
6		
7	SUBTOTAL	1,798,641
8	LESS: OFF-SYSTEM REVENUES	31,862
9	LESS: APPA REVENUES	0
10		
11	TOTAL FUEL AND PURCHASED POWER COSTS	1,766,779
12	PLUS: FACILITIES CHARGES	0
13	PLUS: UNDERLIFT PAYMENTS	0
14	LESS: GAINS(LOSSES) ON THE DISPOSAL OF FUEL OIL	0
15		
16	TOTAL NET FUEL, PURCHASED POWER AND OTHER ENERGY COSTS	$1,766,779

LINE NO	ITEM	GENERATION (GWH)	COSTS ($M)	SALES (GWH)	RATE - CENTS/kWh
17	TOTAL SYSTEM	69,463.0	1,766,779	64,128.0	-
18	LESS: RESALE (INCLUDED ABOVE) 1/	1,076.1	27,370	1,054.0	-
19					
20	TOTAL SUBJECT TO ECABF AND AER	68,386.9	1,739,409	63,074.0	
21	LESS: AER ALLOCATION		173,941		
22	PLUS: URANIUM COSTS (JURISDICTIONED)		30,367		
23	PLUS: 3RD BEAR CREEK PAYMENT (JURISDICTIONED)		0		
24	PLUS: FUEL OIL INVENTORY CARRYING COSTS(JURISDITIONED)		4453		
25					
26	SUBTOTAL		1,600,288		
27	PLUS: F.F. AND U. EXPENSES 2/		16,256		
28				3/	
29	FUEL AND PURCHASED POWER RATE		1,616,544	63,045.5	2.564
30	RECORDED ECAC BALANCING ACCOUNT ON SEPTEMBER 1, 1987		(131,900)		
31	PLUS: F.F. AND U. EXPENSES 2/		(1,340)		
32					
33			(133,240)	63,045.5	(0.211)
34					
35	COMBINED ECAC FUEL AND BALANCING RATE				2.353
36	PLUS: LSFO WRITE-DOWN (100%)		52,932	63045.5	0.084
37	PLUS: DISTILLATE WRITE-DOWN (100%)		4,692	63045.5	0.007
38					
39	AVERAGE ENERGY COST ADJUSTMENT RATE				2.444

1/ BASED ON RESALE GENERATION TO SALES LOSS FACTOR OF 1.83 % IN 1987, AND 3.31 % IN 1988.

2/ BASED ON A RATE OF 1.0056% (1987 = 1.026% : 1988 = 0.977%)

3/ ADJUSTED 28.5 GWH FOR DE DISCOUNTS

Table B-4
Southern California Edison Company
1987-1988 ECAC/AER
Calculation of Adopted AER Rate

LINE NO	ITEM	FORECAST COSTS ($M)
1	OIL	$28,350
2	GAS	654,957
3	COAL	113,077
4	NUCLEAR(NON-URANIUM PORTION)	131,757
5	PURCHASED POWER	870,500
6		
7	SUBTOTAL	1,798,641
8	LESS: OFF-SYSTEM REVENUES	31,862
9	LESS: APPA REVENUES	0
10		
11	TOTAL FUEL AND PURCHASED POWER COSTS	1,766,779
12	PLUS: FACILITIES CHARGES	0
13	PLUS: UNDERLIFT PAYMENTS	0
14	LESS: GAINS(LOSSES) ON THE DISPOSAL OF FUEL OIL	0
15		
16	TOTAL NET FUEL, PURCHASED POWER AND OTHER ENERGY COSTS	$1,766,779

LINE NO	ITEM	GENERATION (GWH)	COSTS ($M)	SALES (GWH)	RATE CENTS/kWh
17	TOTAL SYSTEM	69,463.0	1,766,779	64,128.0	-
18	LESS: RESALE (INCLUDED ABOVE) 1/	1,076.1	27,370	1,054.0	-
19					
20	TOTAL SUBJECT TO ECABF & AER	68,386.9	1,739,409	63,074.0	
21	LESS: ECAC ALLOCATION		1,565,468		
22					
23	SUBTOTAL		173,941		
24	PLUS: F.F. AND U. EXPENSES 2/		1,767		
25				3/	
26	ANNUAL ENERGY RATE BEFORE OIL WRITE-DOWN		175,708	63,045.5	0.279
27	LSFO WRITE-DOWN(0%)		0	63045.5	0.000
28	DISTILLATE WRITE-DOWN(0%)		0	63045.5	0.000
29	ANNUAL ENERGY RATE AFTER OIL WRITE-DOWN				0.279

1/ BASED ON RESALE GENERATION TO SALES LOSS FACTOR OF 1.83 % IN 1987, AND 3.31 % IN 1988.

2/ BASED ON A RATE OF 1.0056% (1987 = 1.026% : 1988 = 0.977%)

3/ ADJUSTED 28.5 GWH FOR DE DISCOUNTS

(End of Appendix B)

APPENDIX C

Table C
Southern California Edison Company
1987-1988 ECAC/AER
Adopted Annual Revenue and Rate Changes

Energy Charge Component	Present Rates		Adopted Rates		Change	
	Cents/kwh	$million	Cents/kwh	$million	Cents/kwh	$million
ERABF	(0.183)	(115.4)	(0.136)	(85.7)	0.047	29.6
ECABF	3.079	1,941.2	2.444	1,540.8	(0.635)	(400.3)
AER	-0-	-0-	0.279	175.9	0.279	175.9
CLMABF	0.030	18.9	(0.009)	(5.7)	(0.039)	(24.6)
Uranium subaccounts	-0-	-0-	0.119	75.0	0.119	75.0
Chevron settlement	-0-	-0-	0.229	144.4	0.229	144.4
Subtotal	2.926	1,844.7	2.926	1,844.7	-0-	-0-

Notes : 1. Revenues based on 63,045.5 GWH annual sales.
2. Subtotal shows only rate components changed by this decision. Tariff sheets will contain additional Energy Charge Components.

(END OF APPENDIX C)

ALJ/RAB/tcg

Decision _____

BEFORE THE PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

In the Matter of the Application of the SOUTHERN CALIFORNIA EDISON COMPANY (U 338-E) for (1) Authority to change its rates effective June 1, 1987 by decreasing its energy cost adjustment billing factors and increasing its electric revenue adjustment billing factor; (2) Authority, at some future date, to reduce its energy cost adjustment clause rates to reflect fuel and energy cost savings attributable to Palo Verde Nuclear Generating Station Unit 3 and Balsam Meadow, coincident with increases in base rates, respectively; (3) Authority to implement other modifications to its energy cost adjustment clause and its electric revenue adjustment mechanism as more specifically set forth in this Application; (4) Review of the reasonableness of Edison's Operations during the period from December 1, 1985, through November 30, 1986; and (5) Review of the reasonableness of Edison's payment to qualifying facilities under Non-Standard Contract during the period December 1, 1984, through November 30, 1986.	Application 87-02-019 (Filed February 5, 1987)

(Appearances are listed in Appendix A.)

O P I N I O N
(Phase I)

Southern California Edison Company (Edison) filed Application 87-02-019 requesting authority to make certain changes to its rate levels that result in a net decrease in revenues for the 1987 Forecast Period (June 1, 1987 to May 31, 1988) of

approximately $111.4 million from present rate revenues on an annual basis calculated in accordance with the revenue allocation and rate design parameters established in Edison's 1985 general rate case, Decision (D.) 84-12-068, and were to be reflected in changes to Edison's Energy Cost Adjustment Clause (ECAC), Energy Cost Adjustment Billing Factors (ECABF) and Electric Revenue Adjustment Billing Factor (ERABF). Edison also requested:

- An order that ECAC rates be adjusted to reflect energy costs savings attributable to Palo Verde Nuclear Generating Station (PVNGS 3) and Balsam Meadow coincident with the implementation of base rates reflecting PVNGS 3 and Balsam Meadow;
- That the Commission find reasonable the fuel and energy costs recorded in Edison's ECAC balancing account from December 1, 1985 to November 30, 1986, inclusive (the 1986 Reasonableness Period);
- That the Commission find reasonable Edison's payments to Qualifying Facilities (QFs) under nonstandard contracts during the period from December 1, 1984 through November 30, 1986; and
- Certain modifications to Edison's ECAC and Electric Revenue Adjustment Mechanism (ERAM).

The review of the reasonableness of operations for the 1986 reasonableness period and the nonstandard QF contracts will be considered in subsequent phases of this proceeding.

On April 7, 1987 Edison requested Commission authorization to decrease annual revenues by $70.5 million rather than $111.4 million based on more recent information concerning resource mix and energy prices as well as more recent recorded ECAC and ERAM balancing account information for January and February 1987. Subsequent changes in the expected initial production dates of new cogeneration facilities and changes in Edison's forecast gas generation resulted in an overall requested decrease by Edison of $78.2 million. At that time, the Public Staff Division of the

Commission (PSD) recommended an annualized revenue decrease of $194 million.

Later data caused both parties to revise this estimate of the decrease. Edison now forecasts a decrease of $151.3 million, while PSD forecasts a decrease of $267.3 million.

Public hearing on the forecast phase of the application was held before Administrative Law Judge Robert Barnett.

Table 1 lists the issues upon which PSD and Edison agree.

TABLE 1

1. Sales Forecast
2. Rate Design
3. Hydro Generation
4. Oil Generation
5. Coal Generation and Costs
6. Nuclear Generation and Expense
7. Palo Verde Unit 3 Fuel Savings
8. Balsam Meadow Fuel Savings
9. Distillate Quantity for Write-Down And LIFO Accounting Method
10. LSFO Write-Down Amount
11. Chevron Demand Charge
12. ECAC Balancing Account Balance at June 1, 1987
13. ERAM Rate Change at June 1, 1987
14. System Heat Rate
15. Oil Generation Expense

PSD agreed that Edison's net sales projection of 64,122 million kWh and its projected total hydro production during the forecast period of 3,633 gigawatt-hours (gWh) were reasonable.

PSD and Edison agree on the quantity (barrels) of low sulfur fuel oil (LSFO), distillate, jet fuel, and diesel to be burned by Edison during the forecast period. PSD accepts Edison's forecast prices for oil generation expenses, turbine fuel, jet fuel, and transportation costs for diesel fuel delivered to Catalina. PSD accepts Edison's proposal to change distillate accounting to the Last-In First-Out (LIFO) method and base the resulting write-down amount on recorded market prices prior to June 1, 1987.

Edison updated its forecast coal generation and expense to reflect gas requirement decreases at both Mohave and Four Corners which reduced gas expenses at these facilities. PSD agreed with Edison's original forecast of generation and expense and did not object to the updated forecast.

PSD and Edison agree on forecast nuclear generation and expense. PSD concurs with Edison's request that the forecast uranium ore expenses be included 100 percent in the ECAC balancing account.

Energy produced by Palo Verde Nuclear Generating Station Unit 3 (PVNGS 3) will displace production from gas-fired generating units. Edison requests that the energy cost savings attributable to the operation of PVNGS 3 be reflected in ECAC rates through the Average Energy Cost Adjustment Rate (AECAR) coincident with the implementation of base rates reflecting PVNGS 3. The projected ECAC revenue reduction attributable to the energy cost savings from PVNGS 3 ranges from $13 to $30 million on an annualized basis. PSD does not object to Edison's request.

The estimated annual energy savings associated with the operation of Balsam Meadow is approximately $5 million. Edison requests that the energy cost savings attributable to the operation

of Balsam Meadow be reflected in ECAC rates through the AECAR coincident with the implementation of base rates reflecting Balsam Meadow. PSD does not object to Edison's request.

Approximately $42 million in termination costs for Mono Power Company's Energy Exploration and Development Adjustment (EEDA) projects are included in the estimated ECAC balance on June 1, 1987. PSD agrees with Edison's estimated June 1, 1987 ECAC balancing account balance. PSD and Edison agree on the estimated June 1, 1987 ERAM balancing account balance and resultant ERAM revenue change for a June 1, 1987 revision date. Originally, Edison and PSD had agreed that the current ERAM rate (in effect prior to June 1, 1987) would result in an ERAM shortfall of $90.8 million in the forecast period. Both parties, therefore, recommended an increase in the ERAM to absorb this shortfall. We have had, however, the benefit of more current operating data and based upon that data we have determined that the shortfall in ERAM revenue is estimated to be $17.7 million rather than $90.8 million, and the parties concur. We will adopt the $17.7 million estimate. In addition, PSD and Edison agree that intervenor compensation payments should be recorded in a deferred account for future base rate recovery exclusive of any interest charges.

Table 2 summarizes the differences between PSD and Edison for forecast period fuel, purchased power, and energy related expenses.

TABLE 2

Differences Between PSD and Edison

Issue	Edison ($M)	PSD ($M)	Difference ($M)
Gas Volume and Price	648	614	(34)
Purchased Power Quantities and Prices	924	852	(72)
Fuel Oil Inventory Carrying Costs	6	4	(2)
Losses on Fuel Oil Sales	2	0	(2)
Third Bear Creek Termination Payment	8	0	(8)
Franchise Fees and Uncollectible Accounts Expense	19	17	(2)
Resale Accounts Allocation	(28)	(24)	4
Total Difference			(116)

A summary of the differences in the position of the parties and our adopted results are:

	Company	PSD	Adopted
ECABF	($169.0)	($460.0)	($431.9)
AER	0.0	175.0	173.4
ERAM	17.7	17.7	17.7
Annual Revenue Change	($151.3)	($267.3)	($240.8)

Natural Gas Generation and Expense

PSD and Edison projected different spot market gas prices and gas margins to be paid to Southern California Gas Company (SoCal). PSD and Edison also forecast differences in

Edison's gas generation which are dependent on the quantity of Pacific Southwest purchased power. Edison forecasts 2,182 gWh less gas generation than PSD which is offset by an equivalent increase in Pacific Southwest purchased power. PSD's forecast of total natural gas expense is $34 million less than Edison's. Because of the rippling effect of this gas expense difference through other sources of power, over $100 million of the $116 million difference is affected, e.g. if gas is cheap, more will be bought and there is less need for purchased power.

Purchased Power Generation and Expense

The differences between PSD's and Edison's forecasts of purchased power generation and expenses are due to forecast gas price differences.

PSD and Edison agree on purchased power quantities and prices from SCE Hoover, Cholla, Mexico geothermal, Pacific Northwest (firm), California, and SCE-renewable/alternative sources.

PSD and Edison agree on quantity but differ on price for Pacific Northwest (non-firm), qualifying facilities, and "other" purchases. The difference is due solely to differences in the gas price forecast.

PSD and Edison differ on both forecast quantity and expenses for Southwest purchases. This difference is due solely to different natural gas price forecasts. The total purchased power expense difference is $72 million.

Fuel Oil Inventory Carrying Costs

PSD and Edison disagree as to the appropriate fuel oil inventory level for the forecast period, the amount of fuel oil inventory carrying costs, and the methodology for calculating fuel oil inventory carrying costs, resulting in a $2 million difference in carrying costs.

Loss on Sale of Fuel Oil Inventory

PSD and Edison disagree on the ratemaking treatment of forecast losses on the sale of fuel oil inventory. PSD proposes disallowing all such losses. Edison believes that the forecast sales and resulting losses are necessary and will result in lower overall costs to the ratepayer. The difference is about $2 million.

Third Bear Creek Termination Payment

PSD and Edison disagree on the ratemaking treatment of the third Bear Creek termination payment. PSD proposes not to include the $8 million payment in ECAC rates effective June 1, 1987. Edison believes that such a payment should be included.

Franchise Fees and Uncollectible Accounts Expense and Resale Accounts Allocation

A $6 million difference between PSD and Edison for Franchise Fees and Uncollectible Accounts expense and resale accounts allocation is due solely to other forecast fuel, purchased power, and energy-related expense differences.

Revenues Associated with Off-System Sales

PSD recommends that the adder revenue component of Edison's off-system sales be included in the ECAC procedure. Edison disagrees with PSD's proposal because such revenues are presently reflected in Edison's base rates.

Annual Energy Rate (AER)

PSD recommends reimposing a 10 percent AER because PSD believes that fuel prices are less volatile this year than they were when the Commission suspended the AER. Edison believes that the AER should remain suspended because of the uncertainty in fuel prices, primarily natural gas prices, due to the Commission's ongoing gas OII/OIR.

Discussion

AER

The AER is a mechanism to provide an incentive to the utility's management to reduce its fuel and purchased power expenses and to have a direct stake in its fuel management decisions. It is a fixed rate, a percentage of the ECAC, not subject to balancing account treatment. Whether to reimpose the AER is the most important issue in this case because without an AER our choice of one forecast or the other, or one of our own, has little overall impact. A low forecast causes ratepayers to make up the shortfall through the ECAC; a high forecast would cause a refund. In either case Edison is made whole and has no risk. Individual ratepayers, however, would be at risk. The ones who pay in the forecast year may not be the same ones who are affected by the ECAC account in the following year, and Edison has little incentive to keep costs down.

With an AER in place the utility is at risk. It will pay close attention to fuel costs, benefitting both shareholders and ratepayers. The AER makes a portion of fuel and purchased power costs recoverable on a fixed, forecast basis. Since the AER is a fixed rate, not subject to balancing account treatment, the shareholder benefits if actual fuel and purchased power expenses are less than forecast; conversely, shareholders lose if actual expenses are greater than forecast. For example, if all fuel and purchased power costs are recoverable through a balancing account (ECAC) and the forecast for 1987 was $1,000, ECAC rates would be set to recover $1,000. But if actual fuel costs exceeded $1,000 in 1987 the ratepayers would pay the excess costs through the ECAC, and if those costs were below $1,000 the ratepayers would recover the difference through the ECAC. In both instances the utility is neutral. When Edison's AER was imposed the split was 90% ECAC and 10% AER. Taking the $1,000 example, if a 10% AER were in place and if actual costs for 1987 were $100 over forecast then Edison would

only recover $90 from the ratepayers; if costs were $100 below forecast then Edison would return to ratepayers only $90. The AER gives the utility a quantifiable stake in fuel purchases.

A 10% AER was first adopted for Edison in 1982; in 1985 it was reduced to 2%; and in 1986 it was suspended entirely, the Commission stating: "We see little useful purpose in continuing the AER incentive mechanism when fuel prices are fluctuating wildly outside managerial control." (D.86-04-007 at p. 4.) PSD believes that fuel prices are no longer fluctuating wildly and, in fact, have stabilized within a comparatively narrow range. PSD therefore, recommends that a 10% AER be reinstated.

Edison opposes reinstating the AER because (1) fuel prices, particularly natural gas prices for the forecast period are beyond Edison's ability to forecast with reasonable certainty, and (2) the status quo fully protects ratepayers and shareholders. It argues that to give any real meaning to the AER as an incentive, fuel management decisions must be based on reasonable gas price forecasts and in today's gas market there is no reasonable certainty in any forecast. Under the present circumstances, any benefit or detriment to Edison's shareholders would be a windfall or penalty caused by changes in gas prices; it would not be earned by Edison's management.

Edison asserts that the natural gas industry is changing rapidly as a result of regulatory changes on both the state and federal level. This Commission, through OII 86-06-005 and OIR 86-06-006 (the gas OII/OIR), has been at the forefront in restructuring the gas industry in California and in responding to the new competitive gas marketplace. These changes, however, have led to increasing uncertainty in natural gas pricing. Any estimate of Edison's forecast period expense thus depends greatly upon an unknown and unknowable factor: the pricing policy the Commission will adopt as a result of the OII/OIR proceeding, an uncertainty that will not be resolved until September 1987 at the earliest.

The OII/OIR proceeding will alter the regulatory program for the natural gas industry and is expected to resolve the revenue allocation/rate design policy that will result from the restructuring of the gas industry.

Edison points out that natural gas prices have a significant effect on Edison's forecast of energy expense and PSD agrees that the price of gas is one of the largest items in the forecast. PSD's and Edison's forecasts of fuel and purchased power expenses differ by approximately $116 million of which approximately $100 million is attributable solely to the differing estimates of forecast natural gas prices (including the gas price effect on Edison's gas generation and purchased power mix).

Edison agrees that the AER is intended to provide an incentive to the utility to manage its energy expenses prudently, but says that the issue in this proceeding is what degree of certainty is required to justify imposing the AER. If the uncertainty in fuel prices overshadows prudent fuel management, the incentive is lacking. The standard necessarily applied to the forecast is that of reasonableness; there must be a reasonable degree of certainty in the predicted fuel expenses. Edison believes that in this proceeding there is great uncertainty in the forecast price of natural gas. This price uncertainty exists for reasons beyond Edison's control and anyone's ability to reasonably predict.

Edison does not claim that <u>any</u> uncertainty in forecast period fuel expense renders the AER inappropriate. However, it argues there must be a reasonable degree of certainty in the forecasts to justify reimposition of the AER. The Commission did not require complete uncertainty to suspend the AER; only that fuel prices could not reasonably be forecast. Due to the uncertainty of the outcome of the gas OII/OIR proceeding, no party can reasonably predict natural gas prices for the forecast period. Edison urges, therefore, that the AER should not be reimposed.

PSD cannot find the uncertainty that plagues Edison. PSD asserts that the Commission's OII/OIR proceeding adds no uncertainty to the ability to forecast gas prices as PSD's recommendation for gas prices in the OII/OIR will be comparable to that recommended in this case. PSD agrees that in this case we may adopt its recommendation from the OII/OIR. It says to accept Edison's argument would lead to the abolition of AER's as the competitive gas marketplace by definition is uncertain. Finally, PSD points out that the basic premise of the AER is to give Edison's shareholders a stake in the outcome of fuel decisions thereby putting pressure on management to make a maximum effort, not just a reasonable effort, to avoid a pass-through mentality with respect to costs.

We believe the concept of an AER mechanism is salutory and easy to understand. Its purpose is to give management an incentive to hold costs down. If they do, the utility benefits; if they don't, the utility is harmed. In the past when we refused to impose an AER or reduced an AER it was because we found the price of fuel and purchased power too volatile to be affected by management supervision. In a rapidly rising market it would be unfair to the utility; in a rapidly falling market it would be unfair to the ratepayers; and in a highly volatile market, unfair to both (although over time the savings would counterbalance each other). Our inquiry then must focus on the forecasts and their reasonableness. Our adopted gas forecast is discussed in a later portion of this decision. Here we will consider the confidence we place in the forecast being realized within reasonable margins.

In D.86-04-007 the Commission suspended the AER until further order, stating: "We see little useful purpose in continuing the AER incentive mechanism when fuel prices are fluctuating wildly outside of management control." The question now is whether fuel prices are still "fluctuating wildly outside of management control." A reading of the fuel price exhibits in this

case leads ineluctably to the conclusion that they are not. PSD and Edison agree on prices from SCE Hoover, Cholla, Mexico geothermal, Pacific Northwest (firm), California, and SCE-renewable/alternative sources, as well as hydro production, the prices for turbine fuel, jet fuel, and transportation costs, plus oil, coal, and nuclear generation expense. Purchased power prices from Pacific Northwest (nonfirm) and Southwest are agreed upon, subject only to fluctuations caused by natural gas prices. Our inquiry is reduced to determining whether gas prices are "fluctuating wildly." They are not now and we do not expect them to be during the forecast period.

We have, for example, compared Edison's projected price for all gas purchases during the forecast period, on a weighted average basis, with PSD's bulk burn price with demand charge. We do not agree that either forecast is the correct forecast to adopt for this proceeding, and have adopted a middle ground, but we believe that the forecasts demonstrate the gas prices will not "fluctuate wildly" in the forecast period.

Natural Gas Fuel Expense - 6/1/87 - 5/31/88
(¢/MMBtu)

	Jun	Jul	Aug	Sep	Oct	Nov	Dec	Jan	Feb	Mar	Apr	May	Avg
Edison (All gas weighted average)	273	256	254	254	275	282	292	310	300	289	278	275	278
PSD (bulk burn w/ demand charge)	228	215	212	216	255	274	274	274	274	255	255	255	249

The table does not show wild fluctuations; it shows the normal gas price rise from summer to winter and price drop from winter to summer. Edison's forecast shows almost no difference between its June 1987 price and its May 1988 price for gas. The

2 cent difference does not even account for expected inflation. PSD's forecast starts lower and ends lower and shows a 9% increase between the June 1987 price and the May 1988 price. In both cases the price curves track in the expected manner and do not fluctuate wildly. This is in contraposition to the wild swing that took place just prior to our D.86-04-007 when gas spot prices dropped from 275¢/MMBtu in July 1985 to 160¢/MMBtu in June 1986. Because there is excess gas available during the forecast period which will not dissipate prior to 1989, possible fluctuations in oil prices will not have an immediate parallel effect on gas prices and will not cause gas prices to fluctuate wildly. As a consequence we believe Edison's management can have an effect on gas costs and should be given the opportunity to benefit from management decisions. Therefore, we shall terminate the AER suspension and reimpose the AER at 10%.

We will also reimpose the AER cap ordered in D.82-12-105, by which AER earnings limitations are calculated as the product of jurisdictional rate base, authorized equity capitalization percentage, and a limit of 160 basis points. This cap is the same as Edison's previous AER cap.

Gas Generation Expense

As a result of a lower forecast of natural gas prices in the forecast year, PSD's estimate of natural gas costs is $34 million less than Edison's. One of the consequences of that forecast is that Edison's purchased power expense will decrease by $72 million due to reduced Southwest purchases.

Edison identified three areas which account for most of the difference between PSD's and Edison's gas expense forecasts.

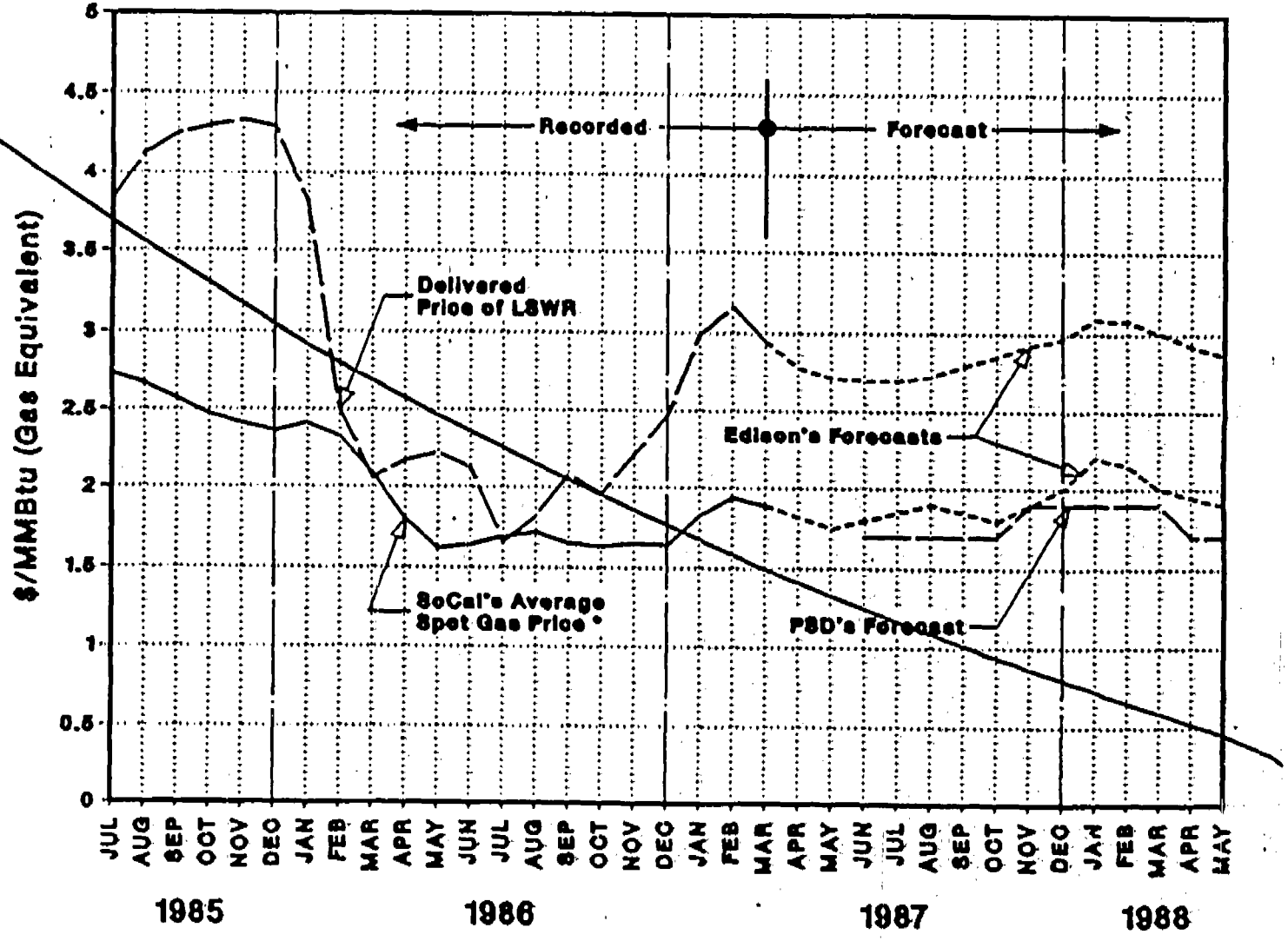
- PSD assumed that the spot market price of gas would remain relatively flat over the forecast period while Edison assumed an increase of about 7.9 percent over current levels.
- PSD assumed Edison will purchase approximately 50 percent of its gas on the spot market during the forecast period at a discount from the

Southern California Gas Company (SoCal) spot gas price; and

- PSD assumed that Edison would pay SoCal a Utility Electric Generation (UEG) margin of $0.85/MMBtu during the forecast period while Edison forecast a margin of $1.00/MMBtu.

Edison's witness testified that Edison's updated gas price forecast recognizes the fact that the direction of spot gas prices historically has been influenced by, among other things, the competing price of low sulfur fuel oil delivered to the Southern California market. The chart on the page following entitled "Comparison of Oil and Gas Prices" shows that, as the price of oil declined sharply from December 1985 through July 1986, the spot market price of natural gas also declined substantially during that period.

Comparison of Oil and Gas Prices



* SoCal's spot bid program began in July 1985.

While he agreed with the PSD witness that spot prices of gas are at this time primarily a function of gas-to-gas competition, it was his belief that had oil prices not plummeted in early 1986, there would not have been the incentive of gas producers to cut prices to the levels experienced during the summer of 1986. The same general correlation between oil and gas prices is seen in the winter of 1986-87, where oil prices rebounded and the spot market price of gas generally improved.

The Edison witness said that PSD's spot gas forecast was developed based on data between March and December of 1986 when oil prices were approximately 45 percent below the level that existed in the first quarter of 1987. Because of the oil price rebound in 1987, and the expectation that current oil prices will generally prevail during the forecast period, it is reasonable to expect that there will be a slight increase in the spot market price of gas, rather than simply a status quo condition as forecast by the PSD.

He continued, that a second, and perhaps more significant, near-term influence on the spot market price of gas is the price of long-term gas supply, which--after a steady decline between October 1984 and March 1987--finally appeared to be stabilizing as evidenced by Transwestern's recent PGA increase on April 1, 1987. As the gas deliverability surplus continues to dissipate, he believes the spot market price of gas will rise to meet the cost of long-term supplies, exceeding that cost in the high-demand winter months. Moreover, in his opinion, the consensus in the gas industry at the present time is that spot gas prices will be firming during the forecast period rather than simply remaining flat.

He believes that Edison's updated spot gas price, which averages about $1.92/MMBtu, compares favorably with the $1.90/MMBtu spot price of SoCal, the largest spot purchaser of natural gas in California and in the nation. He said that a second corroboration of Edison's forecast was obtained when compared with Cambridge

Energy Research Associates' (CERA) most recent forecast, which may be on the conservative side.

In regard to spot gas purchases, he testified that Edison only purchased approximately 10% of its natural gas from spot sellers. He said that PSD's assumption that Edison could, or should, purchase 50% of its gas needs on the spot market was without foundation. First, from a supply security perspective, it may not be in the best interest of Edison's customers to purchase as much as 50 percent of its supply from independent spot sellers. To assume now that a purchase of 50 percent of spot supplies would be prudent during the forecast period is premature.

Secondly, he pointed out that Edison's lack of firm interstate and intrastate pipeline capacity may effectively preclude Edison, in any given month during the forecast period, from purchasing as much as 50 percent of its gas from spot sellers, let alone 50 percent on average for the entire forecast period. As an interruptible transportation customer, Edison has experienced difficulties in actually receiving all volumes of gas for which spot bids were accepted. For example, volumes bid by Pacific Gas and Electric Company (PG&E) during the months of January, February, and March 1987 were substantially reduced. Because of the constraints on Pacific Gas Transmission's (PGT) pipeline capacity, only 18 percent of the bid quantity Edison accepted from PG&E actually flowed during these months. Edison has also experienced similar conditions on Transwestern's pipeline system. Since October 1986, as a result of SoCal exercising its firm demand rights on that system, the flow of any spot gas supplies that attach to Transwestern's gathering system has been precluded. Therefore, in the winter months of the forecast period, even if Edison were willing to award spot bids of up to 50 percent of its gas demand, the likelihood of 50 percent of that gas flowing is very low.

Finally, he testified that PSD has made the assumption, based on only five months of historical price data, that Edison's spot purchases during the forecast period will carry an average price which is 95 percent of the average SoCal spot price. PSD's assumption is contrary to Edison's experience to date in the spot market. PSD overlooks the fact that the majority of bids received by Edison have actually been offered at prices above SoCal's average spot bid price. This is one reason that Edison has only purchased about 10 percent of its gas requirements in this manner. Moreover, the modest price discounts Edison has obtained to date have, in part, been related to the establishment of business relationships, such spot suppliers hoping to sell gas to Edison in the future under longer term contracts. In his opinion, it is unlikely that even the modest discounted price relationship Edison has experienced would continue to exist if Edison were able to purchase up to 50 percent of its gas via direct spot purchases. Why would spot marketers want to sell such large quantities of gas to Edison at a discount when they could sell the same gas directly to SoCal at a higher price?

In regard to UEG (Utility Electric Generation) margin (the amount paid SoCal Gas over and above its cost of gas) he testified that $1.00/MMBtu would be reasonable for the forecast period. PSD originally proposed $.85/MMBtu, but in its brief said that "$.92 is the appropriate UEG margin for the 'ceiling rate' (actual rates could be lower) and that it should be considered in determining the appropriate gas prices during the forecast period."

Edison argues that PSD's $.92 estimate should be increased by $.05 because this Commission assigned the margin shortfall resulting from service to cogeneration customers (about $0.05/MMBtu equivalent) to the UEG class (D.87-05-046, pp. 17-18) and PSD's $.92 margin does not include such subsidy.

The PSD gas forecast witness testified that the cost of short-term gas supplies will remain relatively flat for the

forecast period because, among other reasons, the current gas deliverability surplus will continue throughout the period. He expects gas prices to rise slightly during the winter heating season before falling back to Fall 1987 levels in Spring 1988. He believes that fluctuations in the price of oil will not be the driving force behind the price in spot gas, but that gas-to-gas competition and the gas deliverability surplus will keep prices stable and flat.

In regard to Edison's ability to purchase 50% of its requirements on the spot market at a price 5% below the price SoCal pays for spot gas, the witness testified that he based his opinion on recent Edison purchases below SoCal's price and that as Edison becomes more experienced in the spot gas market it will purchase greater quantities of gas.

As to the UEG margin price of $0.85/MMBtu, he based his opinion entirely on the PSD showing in the gas OII/OIR.

Because we are reinstituting the AER the forecast price of gas takes on added significance. Substantial deviations from the forecast will be costly, either to the ratepayer or the utility. Of the three areas between Edison and PSD which account for most of the differences--spot gas price, spot gas purchases, and UEG margin--the issue of spot gas purchases gives us the least difficulty. Edison's recent spot gas purchases have been between 10% and 15% of its total gas purchases. PSD believes that Edison can regularly purchase spot gas at prices 5% below those paid by SoCal and, therefore, Edison should purchase 50% of its needs on the spot market; PSD points to recent purchases by Edison which were 5% below SoCal's purchases. Edison claims those were made because the sellers were new to Edison and wished to establish a new customer relationship; Edison does not expect those discounts to continue. We agree with Edison. Not only have there been spot purchases by Edison at prices in excess of those paid by SoCal, but we are not persuaded that gas vendors would regularly sell to

Edison at a 5% discount from their price to SoCal. Nor are we persuaded that Edison could buy 50% of its gas supply on the spot market, nor that it would be a prudent policy if it could. However, given the nature of the spot market, it is probable that bargain prices will occur and that Edison will take advantage of them, especially with the incentive of the AER. For the purpose of the forecast we will assume a 10% spot market purchase at a price 5% below SoCal's price.

At the hearing the PSD-Edison difference in SoCal's UEG margin was $0.15/MMBtu. Edison estimated $1.00, PSD estimated $0.85. In its brief PSD agreed to a $0.92/MMBtu margin, the margin it recommended in the gas OII/OIR. Edison points out that the $0.92 margin does not include the $0.05/MMBtu addition that the Commission imposed on the UEG class in D.87-05-046. If Edison must pay it we should include it. Edison seeks a $1.00/MMBtu margin but we are of the opinion that $0.97 is closer to the mark, and that margin will be adopted.

The final issue is the difference in spot gas price estimates. PSD expects spot gas prices to remain relatively flat over the forecast period while Edison predicts a 7.9% average price above the actual prices in the month of May. The reason for the difference in estimates is generally that PSD believes there is a surplus of gas available during the entire forecast period and that any upward surge in oil prices will not be a significant influence on gas prices, while Edison believes the gas surplus will be dissipated during the forecast period and there will be an upward surge in oil prices which will cause gas prices to rise. We believe the Edison forecast to be too high because the evidence persuades us that the gas surplus will be available throughout the forecast period; but the PSD forecast is too low because we are persuaded that oil prices will be higher than PSD's witness expects and to some extent oil prices will drive gas prices. Under the circumstances we will adopt a forecast of gas prices on average 2¢

above that forecast by the PSD witness. Our forecast, in terms of the noncore Tier II price of SoCal Gas, is set forth in Table B-1 of Appendix B to this decision. Adopted values for other gas supplies purchased by Edison are shown in Table B-2.

Fuel Oil Inventory

Edison maintains fuel oil in inventory in order to supply forecast oil burn requirements and additional potential oil burns caused by variations or interruptions in supplies of nonoil energy resources and variations in forecast load. In addition, a portion of Edison's inventory is dictated by the physical limitations of its oil storage and transportation system. Total costs include the costs of carrying inventory, the costs of buying and selling oil, and the costs of running short of inventory and curtailing load.

The required fuel oil inventory consists of three components: (1) Dead Storage, (2) Fuel Management Requirement (FMR), and (3) Potential Oil Burn (POB). Dead Storage is the oil in the bottom of storage tanks that is not available to supply generating units, together with the pipeline-fill displacement oil essential for the operation of Edison's pipeline system. The FMR is the oil necessary to maintain acceptable distribution logistics for Edison's oil pipeline, storage, and receiving facilities, including the minimum levels of inventory necessary at each generating station to sustain operation until new supplies are received. The POB is the quantity of oil required in inventory for forecast oil burns and possible deviations in oil demand above or below the forecast level caused by changes in load, changes in production from nonoil energy resources, or unavailability of supplemental oil supplies.

Edison requests a 6.0 million barrel inventory, which includes a 3.3 million barrel POB, to reflect what it believes is a reasonable level of reliability. Edison asserts that substantial increases in inventory above approximately 6.4 million barrels are required in order to increase reliability and substantial decreases

in reliability occur for decreases in inventory below approximately 5.7 million barrels. Edison's request for 6.0 million barrels falls within this range of 5.7 to 6.4 million barrels.

Edison's 6.0 million barrel inventory request is, it says, also supported by its analysis of the cost of carrying oil in inventory versus the cost of not serving load (shortage costs). The optimum economic inventory is the inventory level at which the sum of the inventory carrying costs plus the shortage costs is minimized. Edison avers that the economic minimum inventory level falls in the range of 5.0 to 7.0 million barrels for the forecast period. Accordingly, the requested 6.0 million barrel level falls within the optimum range for both reliability and minimum overall cost considerations. PSD asserts that a 1.9 million POB is adequate within a total inventory of 4.4 million barrels.

Edison's and PSD's inventory recommendations are summarized in the table below. PSD and Edison agree that the Dead Storage inventory requirement is 1.0 million barrels and that the FMR requirement is a function of the POB.

Comparison of Oil Inventory Recommendations
(Millions of Barrels)

	SCE	PSD	Difference
Dead Storage	1.0	1.0	--
Fuel Management Requirement (FMR)	1.7	1.5	(0.2)
Potential Oil Burn (POB)	3.3	1.9	(1.4)
Total	6.0	4.4	(1.6)

Both Edison and PSD base their recommendations for the POB component of inventory on the output of Edison's Fuel Oil Requirements Analysis (FORA) probabilistic computer model.

The FORA model reflects the manner in which Edison utilizes energy resources. For each period, FORA first calls upon all nonoil/gas resources, including purchased power, to meet system load. Edison's oil/gas-fired power plants are then dispatched as needed. If gas supplies are inadequate, oil-fired generation is required. FORA utilizes all available oil resupply (new oil purchases) to meet oil-fired generation requirements, and then calculates the amount of additional oil supplies necessary to meet any remaining load. This is the amount of oil Edison must have in inventory for that period to completely satisfy load requirements. Lower amounts of inventory will result in lower reliability of service levels.

Edison maintains inventory to meet system needs until new supplies of oil can be received. That is, inventory must be sufficient to sustain system needs until new oil supplies can be expected at a delivery rate matching burn requirements. FORA evaluates inventory requirements over a forward-looking 120-day aggregation period since suppliers have advised Edison that substantial supplies of oil could not be received in less than from 90 to 120 days.

PSD asserts that Edison's estimates are exaggerated and unrealistic. The factor with the most significant impact on FORA is gas availability and PSD believes that gas availability will be adequate in the forecast period. PSD points out that Edison forecast a POB in its last ECAC filing of 1.9 million barrels and there have been no events in the past year which would call for almost doubling the POB forecast. Edison had no gas curtailments last winter and it currently has a broader group of gas suppliers than before as a result of its entry into the spot market. In the opinion of PSD Edison's claims of present natural gas regulatory and market uncertainties are unfounded. If anything, the market has stabilized when compared to recent years.

Edison asserts that its recommendation of 3.3 million barrels for the POB component of inventory reflects the latest forecast information regarding gas availability, spot market gas purchase options, regulatory and market uncertainties, forecast gas supply-demand balance, forecast oil burn, oil resupply, and purchased power availability. The difference between Edison's 1986 POB forecast of 1.9 million barrels and its 1987 forecast of 3.3 million barrels is the result of an entirely new analysis based on new forecasts of load requirement, new forecasts of the availability of resources, and new forecasts of oil resupply availability. The three principal factors in Edison's increased POB are gas availability, oil resupply, and purchased power.

Edison argues that gas availability will decrease by 17% from 1986 levels. It says that the present gas deliverability surplus is dissipating and that SoCal's forecast of gas available to Edison shows a decrease of 4%. When these numbers are factored for regulatory uncertainty and potentially cold years a 17% estimated reduction in gas availability is reasonable. Edison says that oil resupply availability has lessened in the past year. Its analysis shows that short-term (1-2 month) oil availability had slightly decreased from the 1986 forecast, while long-term availability had slightly increased, resulting in an increase in inventory requirements. Finally, Edison points out that Northwest purchased power is down by 4% from 1986 due to lower water run-off projected for 1987 and that the amount of energy received from Hoover Dam has decreased by 67% from last year's forecast.

Edison has not persuaded us to increase the POB from 1.9 million barrels. Its argument that because changes to its FORA program resulted in an increased POB estimate we should accept the new estimate is not convincing. In our opinion the factors which support the FORA program have not changed sufficiently to require an increase in POB. The weight of information regarding the dissipation of the gas deliverability surplus is to the effect that

any possible dissipation will not occur until after the 1987-1988 forecast year. Although one forecaster suggests that a tight gas supply could emerge as early as 1987-88, others say the surplus will last through the late 1980's, and the California Energy Commission says gas dissipation will not occur prior to 1989 at the earliest, while PSD predicts 1995. Edison's evidence regarding oil resupply shows that short-term oil availability "had slightly decreased from the 1986 forecast." That "slight decrease" cannot support a 74% POB increase, even when considered with other changes. Edison's projected reduction in purchased power availability does not support a POB increase. Pacific Northwest purchases may be down 4%, but that is statistically insignificant in this kind of analysis, and Hoover power, while down a significant 67%, accounts for less than 1/2 of 1% of Edison's total resources mix, again statistically insignificant when compared to the requested increase in POB. We will adopt the PSD estimate of 4.4 million barrels of oil inventory.

Inventory Cycling

Edison recommends that it be permitted to recover the loss caused by cycling its oil inventory. Cycling is a practice by which inventory levels are seasonally adjusted to reflect changing inventory requirements, necessitating purchases of oil (about 2.5 million barrels) in the fall of 1987, and equivalent sales in the spring of 1988. This inventory cycling allows Edison to maintain a lower overall average inventory level while preserving needed reliability. The only alternative to cycling without sacrificing reliability is to maintain the highest quantity needed for winter reliability throughout the entire forecast period. When cycling inventory, however, Edison expects to incur losses on the oil purchase and sale transactions due to the quantities involved and their "off-season" nature, i.e., selling in the spring as demand weakens while buying in the fall as demand firms. Edison asserts that cycling is economical to ratepayers because the carrying cost

savings realized from the lower inventory level more than offset the expected losses on the oil sales.

Edison estimates its carrying costs at $6,104,000 based on its requested Fuel Oil Inventory Level (FOIL) of 6.0 million barrels and its losses from cycling at $1.7 million. Edison asserts that its peak winter fuel requirement of 8.3 million barrels would have to be carried at a cost of $8.3 million if it is not permitted to recover its losses from cycling.

PSD opposes Edison's cycling proposal on the ground that no showing was made that Edison would have to cycle 2.5 million barrels. It argues that Edison's proposal is based on an unsubstantiated prediction of a POB of more than 5 million barrels per month in the winter of 1987-88, a peak which is 2 million barrels higher than Edison estimated for the last forecast period and 3.5 million barrels higher than the most severe recent oil burn which occurred in December 1985.

As an alternative to Edison's cycling proposal, PSD recommends that the Commission provide Edison a guaranteed fixed sum each forecast period, for which the company would manage the oil inventory on its own. Edison would be responsible for buy, sell, and hold decisions and absorb all losses and keep any profits it might incur from any inventory cycling it judged necessary. This approach would provide Edison's management with increased flexibility and responsibility while simplifying regulatory review and accounting procedures.

PSD recommends fixed FOIL carrying costs based on a 4.4 million barrel inventory times a fixed LIFO weighted average price of Low Sulphur Fuel Oil (LSFO) and distillate times the average forecast period short-term interest rate, which should be trued up to reflect actual short term rates at the end of the forecast period. In return, Edison can cycle its inventory at its own risk, keeping any profits from economic oil sales, and absorbing any losses from uneconomic oil sales.

In its reply brief Edison states that the PSD "revised proposal resolves Edison's concern that PSD's original proposal created additional risk with no offsetting benefit for ratepayers by reconciling, though only annually, all recorded financing costs associated with fuel oil inventory."

The evidence persuades us that Edison should be permitted to cycle oil and that the PSD revised proposal is a reasonable method of protecting Edison from substantial loss while allowing Edison the opportunity to benefit from the cycling transactions. Based on Edison's theory that it would not cycle unless the savings realized from the lower inventory level more than offset the expected losses on the oil sales, we are confident that under the PSD proposal Edison will manage its FOIL with optimum results. The ratepayers benefit because if there are substantial losses they will be borne by Edison.

The Third Bear Creek Payment

Effective June 30, 1985, Edison entered into an agreement with the Bear Creek Uranium Company to terminate long-term uranium supply contracts in exchange for a payment by Edison of $63.9 million. The third and last payment of $8.025 million was made to Bear Creek on July 1, 1987, and was booked into the ECAC balancing account. The extent to which Edison will be able to recover this termination payment will be decided in A.86-02-005/OII 85-05-002, now pending before the Commission.

Edison proposes to include the third Bear Creek payment in ECAC rates for the forecast period. PSD opposes this recommendation on the ground that Edison's proposal is unprecedented. PSD argues that the $8.025 million is a lump sum settlement payment. A prior $350 million lump sum settlement payment by Edison in 1985 was included in the balancing account, but was not reflected in ECAC rates because it did not offer a fuel related benefit. The Bear Creek payment merely extinguishes a past

obligation and offers no fuel-related benefits during the forecast period.

Edison maintains that the PSD recommendation is contrary to express Commission policy regarding the consistent ratemaking treatment of all fuel-related expenses. The Commission has stated that "it is appropriate to provide consistent rate treatment for all fuel-related expenses." (D.82-12-105, p. 42.) PSD's proposal would treat the third Bear Creek termination payment in a manner inconsistent with all other fuel-related expenses and contrary to express Commission policy.

In its discussion of the Chevron Option Agreement demand charges, the Commission stated:

> "PSD apparently opposes ECAC recovery of the demand charge until the entire agreement can be reviewed for reasonableness. We would allow Edison to recover the demand charge in ECAC rates . . . PSD has not offered any reason why recovery through ECAC now and a subsequent reasonableness review are incompatible. For forecast purposes only, the demand charge would be recognized now and reflected in rates." (D.86-04-058, p. 24.)

In our opinion, PSD's position is contrary to the best interests of the ratepayers and should be rejected. The Bear Creek payment in now recorded in the ECAC balancing account and earning interest. Placing it in rates now eliminates the interest accrual as the amortized payments are received. PSD would have us delay this collection for another year thereby causing an additional year's interest. Whether the payment is amortized this year or next year it is still subject to a reasonableness review and potential refund. Delay only costs the ratepayers.

Revenues Associated with Off-System Sales

Off-system sales are sales of energy made by Edison using generation sources that at the time of delivery are not fully utilized. Edison makes off-system sales at a contract cost equal to the incremental energy cost, plus a specified percentage of the

of low sulphur fuel oil (LSFO) and distillate times the average forecast period short-term interest rate, which should be trued up to reflect actual short term rates at the end of the forecast period. In return, Edison can cycle its inventory at its own risk, keeping any profits from economic oil sales, and absorbing any losses from uneconomic oil sales.

In its reply brief Edison states that the PSD proposal "imposes a risk of recovery on the fuel oil inventory asset similar to any other rate base asset because balancing account treatment would be removed, and carrying costs would be fixed" and that this is inconsistent with the reasoning used to remove FOIL from rate base and finance it at a short-term interest rate.

The evidence persuades us that Edison should be permitted to cycle oil. Also, we are concerned that our authorization of a short-term interest rate is inconsistent with leaving Edison at risk for gain or losses on sales, as PSD proposes. Consequently, we cannot agree that the PSD revised proposal provides a reasonable method of protecting Edison from substantial loss. Based on Edison's theory that it would not cycle unless the savings realized from the lower inventory level more than offset the expected losses on the oil sales, we are potentially penalizing Edison for an action that is to the overall benefit of ratepayers. The ratepayers benefit because Edison is minimizing overall expense, rather than maintaining the inventory at a constant, higher than necessary, level.

Consequently we will treat Edison's oil inventory levels and cycling amounts as follows. Edison will be authorized ECAC rates at the 4.4 million barrel level. Edison will establish a memorandum account that will debit carrying costs, at the short-term interest rate, on the difference between recorded inventory levels and the authorized 4.4 million barrel level. It will also debit any losses (or credit any gains) incurred in cycling fuel oil. The account balance will be considered in Edison's next ECAC

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The evidence persuades us that Edison should be permitted to cycle oil and that the PSD revised proposal is a reasonable method of protecting Edison from substantial loss while allowing Edison the opportunity to benefit from the cycling transactions. Based on Edison's theory that it would not cycle unless the savings realized from the lower inventory level more than offset the expected losses on the oil sales, we are confident that under the PSD proposal Edison will manage its FOIL with optimum results. The ratepayers benefit because if there are substantial losses they will be borne by Edison.

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> "The subsidy that presently occurs between PG&E's electric and gas departments, as a result of economy energy sales should be eliminated by appropriate internal accounting changes." (Id. at 23.)

PSD believes that the Commission policy on economy energy sales adopted in D.85-10-050 reflects the Commission's current position on this issue to achieve a consistent ratemaking approach for both of these ECAC utilities. If the Commission adopts the same policy on economy energy sales for Edison as it adopted in D.85-10-050 for PG&E, the estimated off-system revenues credit reflected in Edison's current general rate case proceeding A.86-12-047 should be adjusted accordingly. In the future, the issue of economy energy sales should be handled in Edison's ECAC proceedings.

Edison argues that PSD's recommendation would inappropriately introduce nonfuel expenses associated with off-system sales such as O&M, depreciation, rate of return, and income taxes into Edison's ECAC procedure, and would result in a mismatching of revenues and expenses in the ECAC procedure which would not be in conformance with established, Commission-approved ECAC policies and procedures (D.93895, p. 7), and therefore should be rejected. Edison points out that PSD's recommendation is based solely upon D.85-10-050 and submits that the facts and circumstances leading to that decision are dissimilar to Edison's position. PG&E is a gas and electric utility. D.85-10-050 attempted to remedy an interdepartmental subsidy created by sales of economy energy which effectively subsidized PG&E's gas department for the sale. PG&E's interdepartmental sales are completely different from Edison's off-system sales because Edison's off-system sales do not subsidize any other Edison entity. Edison says that PSD erroneously applied the result of D.85-10-050 to Edison, and incorrectly concluded that the Commission should impose the same ratemaking treatment to Edison for its off-system

case with Edison bearing the burden of proof that the actual inventories and purchases and sales were reasonable, for possible recovery of the memorandum account balance through ECAC rates.

The Third Bear Creek Payment

Effective June 30, 1985, Edison entered into an agreement with the Bear Creek Uranium Company to terminate long-term uranium supply contracts in exchange for a payment by Edison of $63.9 million. The third and last payment of $8.025 million was made to Bear Creek on July 1, 1987, and was booked into the ECAC balancing account. The extent to which Edison will be able to recover this termination payment will be decided in A.86-02-005/OII 85-05-002, now pending before the Commission.

Edison proposes to include the third Bear Creek payment in ECAC rates for the forecast period. PSD opposes this recommendation on the ground that Edison's proposal is unprecedented. PSD argues that the $8.025 million is a lump sum settlement payment. A prior $350 million lump sum settlement payment by Edison in 1985 was included in the balancing account, but was not reflected in ECAC rates because it did not offer a fuel related benefit. The Bear Creek payment merely extinguishes a past obligation and offers no fuel-related benefits during the forecast period.

Edison maintains that the PSD recommendation is contrary to express Commission policy regarding the consistent ratemaking treatment of all fuel-related expenses. The Commission has stated that "it is appropriate to provide consistent rate treatment for all fuel-related expenses." (D.82-12-105, p. 42.) PSD's proposal would treat the third Bear Creek termination payment in a manner inconsistent with all other fuel-related expenses and contrary to express Commission policy.

In its discussion of the Chevron Option Agreement demand charges, the Commission stated:

> "PSD apparently opposes ECAC recovery of the demand charge until the entire agreement can be

obligation and offers no fuel-related benefits during the forecast period.

Edison maintains that the PSD recommendation is contrary to express Commission policy regarding the consistent ratemaking treatment of all fuel-related expenses. The Commission has stated that "it is appropriate to provide consistent rate treatment for all fuel-related expenses." (D.82-12-105, p. 42.) PSD's proposal would treat the third Bear Creek termination payment in a manner inconsistent with all other fuel-related expenses and contrary to express Commission policy.

In its discussion of the Chevron Option Agreement demand charges, the Commission stated:

> "PSD apparently opposes ECAC recovery of the demand charge until the entire agreement can be reviewed for reasonableness. We would allow Edison to recover the demand charge in ECAC rates . . . PSD has not offered any reason why recovery through ECAC now and a subsequent reasonableness review are incompatible. For forecast purposes only, the demand charge would be recognized now and reflected in rates." (D.86-04-058, p. 24.)

In our opinion, PSD's position is contrary to the best interests of the ratepayers and should be rejected. The Bear Creek payment in now recorded in the ECAC balancing account and earning interest. Placing it in rates now eliminates the interest accrual as the amortized payments are received. PSD would have us delay this collection for another year thereby causing an additional year's interest. Whether the payment is amortized this year or next year it is still subject to a reasonableness review and potential refund. Delay only costs the ratepayers.

Revenues Associated with Off-System Sales

Off-system sales are sales of energy made by Edison using generation sources that at the time of delivery are not fully utilized. Edison makes off-system sales at a contract cost equal to the incremental energy cost, plus a specified percentage of the

sales. PSD's proposal should be rejected because it failed to demonstrate any reason to change the present treatment for Edison's off-system sales that reasonably account for Edison's revenues.

We agree with Edison for the reasons stated and note that transferring revenue and associated expenses from base rates to a balancing account is contrary to the reasoning that PSD urges in support of its ECAC/AER split.

Offer of Proof for Proposed Exhibits 28 and 29

Edison offered in evidence Exhibits 28 and 29. Exhibit 28 is entitled the Prepared Testimony of Charles G. Thompson and supposedly rebuts, with facts and opinion, the testimony offered orally and in writing by PSD's witnesses on fuel oil inventory and pricing issues. Exhibit 29 is entitled the Prepared Rebuttal Testimony of James W. Yee and supposedly rebuts, with facts and opinion, the testimony offered orally and in writing by PSD's witnesses on ratemaking and Commission policy issues. On the motion of PSD, Exhibits 28 and 29 were excluded from the record on the grounds that they are argumentative, not factual, and not rebuttal.

Edison asserts that Exhibits 28 and 29 take issue with the opinions expressed by PSD's witnesses and are admissible. Edison offered the expert opinion testimony of Messrs. Thompson and Yee to rebut PSD's oral and written opinion testimony. Edison argues that the expert opinion testimony offered to contradict PSD's position and to explain PSD's analytical errors is not argument, but valid rebuttal evidence. It claims it is the only evidence the company could offer to address the opinion evidence and recommendations made by PSD. If such rebuttal opinion testimony is considered to be argument and thus inadmissible, PSD receives a distinctly unfair advantage: PSD may state its recommendations based on its opinions in the evidentiary record but

total incremental generation cost (the adder) plus a 0.2 mill per kWh operation and maintenance (O&M) cost. The incremental fuel revenue component represents Edison's incremental fuel costs required to generate electricity for off-system sales. The adder revenue component is a percentage of the incremental fuel component and is intended to recover indirect and overhead costs, not recovered in Edison's base rates, associated with these sales. The O&M component recovers Edison's O&M expenses incurred for these sales. PSD recommends that the adder revenue, or "profit" component as PSD denotes such revenue, of off-system sales should be subject to the ECABF/AER percentage split based upon Commission D.85-10-050.

Under Edison's ECAC procedure, the incremental fuel revenue component of off-system sales is credited to the ECAC balancing account. The O&M and adder revenue components are reflected as reductions to Edison's base rates. Thus, Edison asserts, its present ECAC ratemaking treatment for off-system sales is reasonable because it ensures that Edison's ratepayers are not charged with energy costs already recovered through billed revenues and receive proper credit of the O&M and adder revenue components in the base rate cost of service calculation.

PSD argues that in D.85-12-050 (PG&E, A.84-04-028) the Commission ordered that:

> "Commencing with the August 1984-July 1985 sales forecast covered by this proceeding, all fuel expense, revenue and profit related to economy energy sales will be subject to the 91%/9% ECAC/AER split. PG&E may continue to apply 0.2 mills/kWh to cover O&M expenses related to these sales." (D.85-12-050, p. 22.)

PSD recommends that this same Commission policy should be adopted for Edison. Although PG&E is a combination gas and electric company and Edison is an electric utility, PSD suggests that the Commission resolved this difference when it stated that:

> "The subsidy that presently occurs between PG&E's electric and gas departments, as a result of economy energy sales should be eliminated by appropriate internal accounting changes." (Id. at 23.)

PSD believes that the Commission policy on economy energy sales adopted in D.85-10-050 reflects the Commission's current position on this issue to achieve a consistent ratemaking approach for both of these ECAC utilities. If the Commission adopts the same policy on economy energy sales for Edison as it adopted in D.85-10-050 for PG&E, the estimated off-system revenues credit reflected in Edison's current general rate case proceeding A.86-12-047 should be adjusted accordingly. In the future, the issue of economy energy sales should be handled in Edison's ECAC proceedings.

Edison argues that PSD's recommendation would inappropriately introduce nonfuel expenses associated with off-system sales such as O&M, depreciation, rate of return, and income taxes into Edison's ECAC procedure, and would result in a mismatching of revenues and expenses in the ECAC procedure which would not be in conformance with established, Commission-approved ECAC policies and procedures (D.93895, p. 7), and therefore should be rejected. Edison points out that PSD's recommendation is based solely upon D.85-10-050 and submits that the facts and circumstances leading to that decision are dissimilar to Edison's position. PG&E is a gas and electric utility. D.85-10-050 attempted to remedy an interdepartmental subsidy created by sales of economy energy which effectively subsidized PG&E's gas department for the sale. PG&E's interdepartmental sales are completely different from Edison's off-system sales because Edison's off-system sales do not subsidize any other Edison entity. Edison says that PSD erroneously applied the result of D.85-10-050 to Edison, and incorrectly concluded that the Commission should impose the same ratemaking treatment to Edison for its off-system

sales. PSD's proposal should be rejected because it failed to demonstrate any reason to change the present treatment for Edison's off-system sales that reasonably account for Edison's revenues.

We agree with Edison for the reasons stated and note that transferring revenue and associated expenses from base rates to a balancing account is contrary to the reasoning that PSD urges in support of its ECAC/AER split.

Offer of Proof for Proposed Exhibits 28 and 29

Edison offered in evidence Exhibits 28 and 29. Exhibit 28 is entitled the Prepared Testimony of Charles G. Thompson and supposedly rebuts, with facts and opinion, the testimony offered orally and in writing by PSD's witnesses on fuel oil inventory and pricing issues. Exhibit 29 is entitled the Prepared Rebuttal Testimony of James W. Yee and supposedly rebuts, with facts and opinion, the testimony offered orally and in writing by PSD's witnesses on ratemaking and Commission policy issues. On the motion of PSD, Exhibits 28 and 29 were excluded from the record on the grounds that they are argumentative, not factual, and not rebuttal.

Edison asserts that Exhibits 28 and 29 take issue with the opinions expressed by PSD's witnesses and are admissible. Edison offered the expert opinion testimony of Messrs. Thompson and Yee to rebut PSD's oral and written opinion testimony. Edison argues that the expert opinion testimony offered to contradict PSD's position and to explain PSD's analytical errors is not argument, but valid rebuttal evidence. It claims it is the only evidence the company could offer to address the opinion evidence and recommendations made by PSD. If such rebuttal opinion testimony is considered to be argument and thus inadmissible, PSD receives a distinctly unfair advantage: PSD may state its recommendations based on its opinions in the evidentiary record but

case (CLMAC) A.86-07-041, and its 1988 test year rate case A.86-12-047, Edison should recover the authorized portion of the Chevron settlement through an increase in ECAC rates to the extent that the increase can be offset by a decrease of the ECAC rates found appropriate in A.87-02-019 and the CLMAC rates found appropriate in D.87-05-021.

A.86-02-005 (the Uranium Proceeding) has been briefed by the parties, and a proposed decision is pending but has not yet been issued. We will consolidate the rate relief in this decision with the relief granted in D.87-06-021 (the Chevron settlement) and D.87-05-021 (the CLMAC case), because we believe it appropriate for rate stability purposes to coordinate the rate changes. Based upon the $25 million rate reduction in CLMAC rates found appropriate in D.87-05-021 and the net decrease in rates authorized in this decision, it is reasonable to increase the Chevron settlement rate by an equal amount so that the ratepayers will see no change in their bills as a result of these rate actions. The resulting rates are set forth in Appendix C.

Findings of Fact

1. Fuel prices in the current market are sufficiently stable to permit forecasting with a reasonable expectation that the forecast will be realized within reasonable margins.

2. There will be a surplus of natural gas available during the forecast period and any upward surge in oil prices will have some influence on gas prices but not as substantial an influence as Edison predicts.

3. Edison should be expected to purchase natural gas on the spot market to meet at least 10% of its requirements at a price about 5% lower than prices SoCal pays for spot gas.

4. The UEG margin should be estimated at $0.97/MMBtu.

5. Gas prices overall in the forecast period should be estimated at an average of $0.02 per MMBtu above that forecast by the PSD witness.

no contrary opinion testimony can be offered to refute PSD's position.

PSD supports the ALJ's ruling. It argues that the ALJ was properly applying the Commission standard that "rebuttal testimony should be limited to factual presentations, rather than testimony that is merely argumentative or contradictory of other parties." (D.85-06-112, pp. 101-102.)

We have reviewed Exhibits 28 and 29 and find that they are argumentative and were properly excluded. We note that the ALJ in his ruling observed that the substance of the exhibits was argument more appropriate to a brief; and in reading Edison's briefs we find whole sections of the exhibits set out in the briefs. (Cf. Ex. 29, pp. 36-54 with Edison Brief, pp. 53-66.)

Coordination of Rate Changes With Other Decisions

On April 13, 1987, Edison requested that we consolidate the rate relief in this decision with our decision in A.85-05-055 (the Chevron Proceeding) and A.86-02-005 (the Uranium Proceeding). Edison requested that any increase to the Chevron settlement rate authorized in the Chevron Proceeding be applied in an equal and opposite amount to the ECAC balancing rate found reasonable in this decision, thereby resulting in no change to the ECABF and no rate level change to ratepayers. Edison also requested a similar treatment for the uranium contract settlement rate change. On May 31, 1987, we issued D.87-05-021 in the CLMAC Proceeding A.86-07-041 which, among other things, authorized a reduction in CLMAC rates of about $25 million on an annualized basis.

On June 15, 1987, we issued D.87-06-021 in the Chevron Proceeding which authorized Edison to recover the Chevron settlement payment over a two and one-half year period, requiring an increase in the range of $175 to $185 million on an annualized basis. In D.87-06-021, we said that to coordinate the significant revenue changes due to Edison's Chevron Proceeding, its ECAC

6. PSD and Edison agree as to the characterization and function of Edison's three components of inventory: Dead Storage, Fuel Management Requirement, and Potential Oil Burn.

7. PSD and Edison agree that 1.0 million barrels is reasonable for Dead Storage and that FMR is a function of POB.

8. PSD's adjustment to Edison's FMR request is based solely on PSD's lower POB recommendation.

9. Because there is expected to be an adequate supply of natural gas during the forecast period, because 1.9 million barrels of POB was adequate in recent years, and because Edison's changes in the FORA model do not accurately reflect the standards required to predict fuel oil requirements in the forecast period, a POB of 1.9 million barrels is reasonable for the forecast period.

10. The PSD estimate of 4.4 million barrels of fuel oil inventory (consisting of Dead Storage, 1.0; FMR, 1.5; and POB, 1.9,) is reasonable.

11. Edison has proposed to write down to market value its distillate inventory and implement LIFO accounting in the same manner as the LSFO write down authorized in D.86-12-096. PSD agrees that a write down of fuel oil inventory is in the best interests of the Company and the ratepayers.

12. Edison's LSFO and distillate inventories write-down proposal which provides for 100 percent balancing account recovery and exact recovery of the write-down amount as authorized by D.86-12-096 is reasonable. Any under- or over-collection would be reflected in future rates through the ECAC balancing account.

13. Edison's adder revenue for off-system sales of electricity is currently reflected in the calculation of Edison's base rates and should remain in base rates.

14. It is reasonable to include the third Bear Creek payment in the ECAC balancing account.

15. Edison's ratemaking treatment of off-system sales is reasonable.

A.87-02-019, its Conservation Load Management Adjustment Clause case (CLMAC) A.86-07-041, and its 1988 test year rate case A.86-12-047, Edison should recover the authorized portion of the Chevron settlement through an increase in ECAC rates to the extent that the increase can be offset by a decrease of the ECAC rates found appropriate in A.87-02-019 and the CLMAC rates found appropriate in D.87-05-021. In the Uranium Proceeding we found that Edison should recover certain uranium costs, which we have determined to be $75 million, subject to reasonableness review (D.87-10-042).

We will consolidate the rate relief in this decision with the relief granted in D.87-06-021 (the Chevron settlement), D.87-10-042 (the Uranium Proceeding), and D.87-05-021 (the CLMAC case), because we believe it appropriate for rate stability purposes to coordinate the rate changes. Based upon the $25 million rate reduction in CLMAC rates found appropriate in D.87-05-021 and the net decrease in rates authorized in this decision, it is reasonable to increase the Chevron settlement rate by an equal amount so that the ratepayers will see no change in their bills as a result of these rate actions. The resulting rates are set forth in Appendix C.

Findings of Fact

1. Fuel prices in the current market are sufficiently stable to permit forecasting with a reasonable expectation that the forecast will be realized within reasonable margins.

2. There will be a surplus of natural gas available during the forecast period and any upward surge in oil prices will have some influence on gas prices but not as substantial an influence as Edison predicts.

3. Edison should be expected to purchase natural gas on the spot market to meet at least 10% of its requirements at a price about 5% lower than prices SoCal pays for spot gas.

4. The UEG margin should be estimated at $0.97/MMBtu.

16. Edison's oil generation expense is reasonable.

17. Edison's estimates of sales forecast, hydro generation, oil generation, coal generation and costs, nuclear generation and expense, and system heat rate are reasonable for the forecast period.

18. Except as modified by these findings, Edison's forecast of resource mix and associated fuel expense is reasonable.

19. The proposed adjustments by Edison to the ECABF resulting from energy savings associated with Palo Verde Nuclear Generating Station Unit 3 and Balsam Meadow are reasonable and should be made coincident with the implementation of base rates which reflect PVNGS 3 and Balsam Meadow.

20. Edison may record intervenor compensation payments in a deferred account for future base rate recovery exclusive of any interest charges.

21. Costs associated with EEDA project Nos. 76-02E, 80-01B, 80-02E, and 80-03E have been determined in A.86-02-011 and have not been considered in this proceeding.

22. Edison's ECAC balancing account balance at June 1, 1987 is accurate and reasonable.

23. Edison's and PSD's agreed upon ERAM rate change at June 1, 1987 is reasonable and should be adopted.

24. The annualized revenue change authorized by this decision is:

ECABF	($431.9) million
AER	173.4
ERAM	17.7
Annual Revenue Change	($240.8) million

Calculations of adopted ECAC and AER rates are shown on Tables B-3 and B-4 of Appendix B to this decision.

25. The change in rates and charges authorized by this decision is justified and is reasonable; the present rates and charges, as of June 1, 1987, insofar as they differ from those prescribed by this decision, are unjust and unreasonable.

Conclusions of Law

1. The suspension of the AER should be terminated and the AER reinstated at 10% of (i) new fuel and purchased power expenses applicable for inclusion in ECAC, (ii) the revenue requirement associated with fuel oil inventory, and (iii) underlifts, facility charges, and gains or losses from the sale of fuel oil. A cap on the AER, either upward or downward, should be imposed based on the product of jurisdictional rate base, authorized equity capitalization percentage, and 160 basis points.

2. Edison should be allowed to recover 100% of the costs associated with the Mono Power Company's EEDA projects' termination costs in the ECAC balancing account, subject to refund pending a further reasonableness review.

3. Edison should be allowed 100 percent recovery in the ECAC balancing account of uranium costs associated with forecast period nuclear fuel expense.

4. Edison should be permitted to cycle its fuel oil inventory.

5. FOIL carrying costs should be fixed based on a 4.4 million barrel inventory times a fixed LIFO weighted average price of LSFO and distillate times the average forecast period short term interest rate, which should be trued up at the end of the forecast period to reflect actual short term rates.

6. The Chevron Option Agreement settlement rate set forth in D.87-06-021 in A.85-05-055 and the CLMAC rates set forth in D.87-05-021 in A.86-07-041 should be reflected in ECAC rates.

7. All of the modifications ordered by this decision should be effective for the forecast period June 1, 1987 through May 31, 1988.

8. An ECAC rate of $0.02394/kWh, an AER rate of $0.00275/kWh, and an ERAM rate of $0.00155/kWh should be imposed as set forth in the following order:

case), because we believe it appropriate for rate stability purposes to coordinate the rate changes. Based upon the $25 million rate reduction in CLMAC rates found appropriate in D.87-05-021 and the net decrease in rates authorized in this decision, it is reasonable to increase the Chevron settlement rate by an equal amount so that the ratepayers will see no change in their bills as a result of these rate actions. The resulting rates are set forth in Appendix C.

Findings of Fact

1. Fuel prices in the current market are sufficiently stable to permit forecasting with a reasonable expectation that the forecast will be realized within reasonable margins.

2. There will be a surplus of natural gas available during the forecast period and any upward surge in oil prices will have some influence on gas prices but not as substantial an influence as Edison predicts.

3. Edison should be expected to purchase natural gas on the spot market to meet at least 10% of its requirements at a price about 5% lower than prices SoCal pays for spot gas.

4. The UEG margin should be estimated at $0.97/MMBtu.

5. Gas prices overall in the forecast period should be estimated at an average of $0.02 per MMBtu above that forecast by the PSD witness.

6. PSD and Edison agree as to the characterization and function of Edison's three components of inventory: Dead Storage, Fuel Management Requirement, and Potential Oil Burn.

7. PSD and Edison agree that 1.0 million barrels is reasonable for Dead Storage and that FMR is a function of POB.

8. PSD's adjustment to Edison's FMR request is based solely on PSD's lower POB recommendation.

9. Because fuel oil in inventory is financed at the short-term interest rate, it should be a low-risk investment.

5. Gas prices overall in the forecast period should be estimated at an average of $0.02 per MMBtu above that forecast by the PSD witness.

6. PSD and Edison agree as to the characterization and function of Edison's three components of inventory: Dead Storage, Fuel Management Requirement, and Potential Oil Burn.

7. PSD and Edison agree that 1.0 million barrels is reasonable for Dead Storage and that FMR is a function of POB.

8. PSD's adjustment to Edison's FMR request is based solely on PSD's lower POB recommendation.

9. Because there is expected to be an adequate supply of natural gas during the forecast period, because 1.9 million barrels of POB was adequate in recent years, and because Edison's changes in the FORA model do not accurately reflect the standards required to predict fuel oil requirements in the forecast period, a POB of 1.9 million barrels is reasonable for the forecast period.

10. The PSD estimate of 4.4 million barrels of fuel oil inventory (consisting of Dead Storage, 1.0; FMR, 1.5; and POB, 1.9,) is reasonable.

11. Edison has proposed to write down to market value its distillate inventory and implement LIFO accounting in the same manner as the LSFO write down authorized in D.86-12-096. PSD agrees that a write down of fuel oil inventory is in the best interests of the Company and the ratepayers.

12. Edison's LSFO and distillate inventories write-down proposal which provides for 100 percent balancing account recovery and exact recovery of the write-down amount as authorized by D.86-12-096 is reasonable. Any under- or over-collection would be reflected in future rates through the ECAC balancing account.

13. Edison's adder revenue for off-system sales of electricity is currently reflected in the calculation of Edison's base rates and should remain in base rates.

10. The PSD estimate of 4.4 million barrels of fuel oil inventory (consisting of Dead Storage, 1.0; FMR, 1.5; and POB, 1.9,) is reasonable for prospective authorization in rates.

11. Edison has proposed to write down to market value its distillate inventory and implement LIFO accounting in the same manner as the LSFO write down authorized in D.86-12-096. PSD agrees that a write down of fuel oil inventory is in the best interests of the Company and the ratepayers.

12. Edison's LSFO and distillate inventories write-down proposal which provides for 100 percent balancing account recovery and exact recovery of the write-down amount as authorized by D.86-12-096 is reasonable. Any under- or over-collection would be reflected in future rates through the ECAC balancing account.

13. Edison's adder revenue for off-system sales of electricity is currently reflected in the calculation of Edison's base rates and should remain in base rates.

14. It is reasonable to include the third Bear Creek payment in the ECAC balancing account.

15. Edison's ratemaking treatment of off-system sales is reasonable.

16. Edison's oil generation forecast and oil prices are reasonable.

17. Edison's estimates of sales forecast, hydro generation, oil generation, coal generation and costs, nuclear generation and expense, and system heat rate are reasonable for the forecast period.

18. Except as modified by these findings, Edison's forecast of resource mix and associated fuel expense is reasonable.

19. The proposed adjustments by Edison to the ECABF resulting from energy savings associated with Palo Verde Nuclear Generating Station Unit 3 and Balsam Meadow are reasonable and should be made coincident with the implementation of rates which reflect PVNGS 3 and Balsam Meadow.

O R D E R

IT IS ORDERED that:

1. A ten percent annual energy rate (AER) is reinstated for Southern California Edison Company (Edison) composed of Edison's (i) new fuel and purchased power expenses applicable for inclusion in ECAC, (ii) the revenue requirement associated with fuel oil inventory, and (iii) underlifts, facility charges, and gains or losses from the sale of fuel oil. A cap on the AER, either upward or downward, is imposed based on the product of jurisdictional rate base, authorized equity capitalization percentage, and 160 basis points.

2. Edison may write down to market value its distillate inventory and implement LIFO accounting in the same manner as the LSFO write down authorized in D.86-12-096. This write down shall be recovered 100% in the ECAC balancing account.

3. Edison may recover 100% of the costs associated with Mono Power Company's EEDA projects' termination in the ECAC balancing account, subject to refund pending a further reasonableness review.

4. Edison may recover in the ECAC balancing account 100% of its uranium costs associated with forecast period nuclear fuel expense.

5. Edison may cycle its fuel oil inventory.

6. The third Bear Creek payment should be included in the ECAC balancing account.

7. The Chevron Option Agreement settlement rate set forth in D.87-06-021 in A.85-05-055 and the CLMAC rates set forth in D.87-05-021 in A.86-07-041 should be reflected in ECAC rates.

8. The proposed adjustments by Edison to the ECABF resulting from energy savings associated with Palo Verde Nuclear Generating Station Unit 3 and Balsam Meadow should be made coincident with the implementation of base rates which reflect PVNGS 3 and Balsam Meadow.

14. It is reasonable to include the third Bear Creek payment in the ECAC balancing account.

15. Edison's ratemaking treatment of off-system sales is reasonable.

16. Edison's oil generation forecast and oil prices are reasonable.

17. Edison's estimates of sales forecast, hydro generation, oil generation, coal generation and costs, nuclear generation and expense, and system heat rate are reasonable for the forecast period.

18. Except as modified by these findings, Edison's forecast of resource mix and associated fuel expense is reasonable.

19. The proposed adjustments by Edison to the ECABF resulting from energy savings associated with Palo Verde Nuclear Generating Station Unit 3 and Balsam Meadow are reasonable and should be made coincident with the implementation of rates which reflect PVNGS 3 and Balsam Meadow.

20. Edison may record intervenor compensation payments in a deferred account for future base rate recovery exclusive of any interest charges.

21. Costs associated with EEDA project Nos. 76-02E, 80-01B, 80-02E, and 80-03E have been determined in A.86-02-011 and have not been considered in this proceeding.

22. Edison's ECAC balancing account balance at June 1, 1987 is accurate and reasonable.

23. Edison's and PSD's agreed upon ERAM rate change at June 1, 1987 is reasonable and should be adopted.

24. The annualized revenue change authorized by this decision is:

ECAC	($400.3) million
AER	175.9
ERAM	29.6
Annual Revenue Change	($194.8) million

20. Edison may record intervenor compensation payments in a deferred account for future base rate recovery exclusive of any interest charges.

21. Costs associated with EEDA project Nos. 76-02E, 80-01B, 80-02E, and 80-03E have been determined in A.86-02-011 and have not been considered in this proceeding.

22. Edison's ECAC balancing account balance at June 1, 1987 is accurate and reasonable.

23. Edison's and PSD's agreed upon ERAM rate change at June 1, 1987 is reasonable and should be adopted.

24. The annualized revenue change authorized by this decision is:

ECAC	($400.3) million
AER	175.9
ERAM	29.6
Annual Revenue Change	($194.8) million

Calculations of adopted ECAC and AER rates are shown on Tables B-3 and B-4 of Appendix B to this decision.

25. The change in rates and charges authorized by this decision is justified and is reasonable; the present rates and charges insofar as they differ from those prescribed by this decision, are unjust and unreasonable. The adopted rates are set forth in Appendix C.

Conclusions of Law

1. The suspension of the AER should be terminated and the AER reinstated at 10% of (i) new fuel and purchased power expenses applicable for inclusion in ECAC, (ii) the revenue requirement associated with fuel oil inventory, and (iii) underlifts, facility charges, and gains or losses from the sale of fuel oil. A cap on the AER, either upward or downward, should be imposed based on the product of jurisdictional rate base, authorized equity capitalization percentage, and 160 basis points.

2. Edison should be allowed to recover 100% of the costs associated with the Mono Power Company's EEDA projects' termination

9. Edison may record intervenor compensation payments in a deferred account for future base rate recovery exclusive of any interest charges.

10. Edison may file on 7 days' notice to the Commission and to the public tariffs setting forth an ECAC rate of $0.02394/kWh, an AER rate of $0.00275/kWh, and an ERAM rate of $0.00155/kWh.

This order is effective today.

Dated _____, at San Francisco, California.

Calculations of adopted ECAC and AER rates are shown on Tables B-3 and B-4 of Appendix B to this decision.

25. The change in rates and charges authorized by this decision is justified and is reasonable; the present rates and charges insofar as they differ from those prescribed by this decision, are unjust and unreasonable. The adopted rates are set forth in Appendix C.

Conclusions of Law

1. The suspension of the AER should be terminated and the AER reinstated at 10% of (i) new fuel and purchased power expenses applicable for inclusion in ECAC, (ii) the revenue requirement associated with fuel oil inventory, and (iii) underlifts, facility charges, and gains or losses from the sale of fuel oil. A cap on the AER, either upward or downward, should be imposed based on the product of jurisdictional rate base, authorized equity capitalization percentage, and 160 basis points.

2. Edison should be allowed to recover 100% of the costs associated with the Mono Power Company's EEDA projects' termination costs in the ECAC balancing account, subject to refund pending a further reasonableness review.

3. Edison should be allowed 100 percent recovery in the ECAC balancing account of uranium costs associated with forecast period nuclear fuel expense.

4. Edison should be permitted to cycle its fuel oil inventory.

5. FOIL carrying costs should be fixed based on a 4.4 million barrel inventory times a fixed LIFO weighted average price of LSFO and distillate times the average forecast period short term interest rate, which should be trued up at the end of the forecast period to reflect actual short term rates.

6. The Chevron Option Agreement settlement rate set forth in D.87-06-021 in A.85-05-055, the uranium settlement rates set forth

costs in the ECAC balancing account, subject to refund pending a further reasonableness review.

3. Edison should be allowed 100 percent recovery in the ECAC balancing account of uranium costs associated with forecast period nuclear fuel expense.

4. Edison should be permitted to cycle its fuel oil inventory.

5. FOIL carrying costs should be fixed prospectively based on a 4.4 million barrel inventory times a fixed LIFO weighted average price of LSFO and distillate times the average forecast period short term interest rate, which should be trued up at the end of the forecast period to reflect actual short term rates. Variations in inventory carrying costs and gain and losses on cycling will be treated as described in this decision for later potential recovery through ECAC.

6. The Chevron Option Agreement settlement rate set forth in D.87-06-021 in A.85-05-055, the uranium settlement rates set forth in D.87-10-042 in A.86-02-005, and the CLMAC rates set forth in D.87-05-021 in A.86-07-041 should be reflected in ECAC rates.

7. The rates set forth in Appendix C of this decision are adopted.

O R D E R

IT IS ORDERED that:

1. A ten percent annual energy rate (AER) is reinstated for Southern California Edison Company (Edison) composed of Edison's (i) new fuel and purchased power expenses applicable for inclusion in ECAC, (ii) the revenue requirement associated with fuel oil inventory, and (iii) underlifts, facility charges, and gains or losses from the sale of fuel oil. A cap on the AER, either upward or downward, is imposed based on the product of jurisdictional rate

in D.87-10-042 in A.86-02-005, and the CLMAC rates set forth in D.87-05-021 in A.86-07-041 should be reflected in ECAC rates.

7. The rates set forth in Appendix C of this decision are adopted.

O R D E R

IT IS ORDERED that:

1. A ten percent annual energy rate (AER) is reinstated for Southern California Edison Company (Edison) composed of Edison's (i) new fuel and purchased power expenses applicable for inclusion in ECAC, (ii) the revenue requirement associated with fuel oil inventory, and (iii) underlifts, facility charges, and gains or losses from the sale of fuel oil. A cap on the AER, either upward or downward, is imposed based on the product of jurisdictional rate base, authorized equity capitalization percentage, and 160 basis points.

2. Edison may write down to market value its distillate inventory and implement LIFO accounting in the same manner as the LSFO write down authorized in D.86-12-096. This write down shall be recovered 100% in the ECAC balancing account.

3. Edison may recover 100% of the costs associated with Mono Power Company's EEDA projects' termination in the ECAC balancing account, subject to refund pending a further reasonableness review.

4. Edison may recover in the ECAC balancing account 100% of its uranium costs associated with forecast period nuclear fuel expense.

5. Edison may cycle its fuel oil inventory.

6. The third Bear Creek payment should be included in the ECAC balancing account.

7. The Chevron Option Agreement settlement rate set forth in D.87-06-021 in A.85-05-055, the uranium settlement rates set forth

in D.87-10-042 in A.86-02-005, and the CLMAC rates set forth in D.87-05-021 in A.86-07-041 should be reflected in ECAC rates.

8. The proposed adjustments by Edison to the ECABF resulting from energy savings associated with Palo Verde Nuclear Generating Station Unit 3 and Balsam Meadow should be made coincident with the implementation of rates which reflect PVNGS 3 and Balsam Meadow.

9. Edison may record intervenor compensation payments in a deferred account for future base rate recovery exclusive of any interest charges.

10. Edison may file on 7 days' notice to the Commission and to the public tariffs setting forth the adopted rates set forth in Appendix C of this decision.

11. Edison's motion to consolidate Commission consideration of the accounting issues related to PSD's fixed fuel oil inventory carrying costs is granted as follows: To the extent that the decision in Pacific Gas & Electric Company's A.87-04-005 establishes accounting procedures for fixed fuel oil inventory carrying costs, those accounting procedures shall be adopted by Edison. In all other respects, Edison's motion is denied.

This order is effective today.

Dated NOV 13 1987, at San Francisco, California.

STANLEY W. HULETT
President
FREDERICK R. DUDA
G. MITCHELL WILK
JOHN B. OHANIAN
Commissioners

Commissioner Donald Vial, being necessarily absent, did not participate.