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Decision 88-04-026 April 13, 1988 APR 14 1988

BEFORE THE PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

In the Matter of the Application of Southern California Edison Company for authority to increase rates charged by it for electric service. (Electric) (U 338 E)	Application 86-12-047 (Filed December 26, 1986)
Order Instituting Investigation into the rates, charges, and practices of the Southern California Edison Company.	I.87-01-017 (Filed January 14, 1987)

(See Decision 87-12-066 for appearances.)

OPINION MODIFYING DECISION 87-12-066: MARGINAL COST, REVENUE ALLOCATION, AND RATE DESIGN

On December 22, 1987, the Commission issued Decision (D.) 87-12-066 in this proceeding. Among other things, the order authorized Edison to file new electric rates effective January 1, 1988. These rates were based on the revenue requirement, marginal cost, revenue allocation, and rate design adopted in the decision.

Since the issuance of D.87-12-066, several petitions for modification of that order have been filed. In this decision, the Commission will review and consider those petitions which addressed the portions of D.87-12-066 related to marginal cost, revenue allocation, and rate design.

The petitioners include Southern California Edison Company (Edison), the California Large Energy Consumers Association and the California Steel Producers Group (CLECA/CSPG), the Industrial Users (IU), the California Farm Bureau Federation (Farm Bureau), Toward Utility Rate Normalization (TURN), and Luz Engineering (Luz). Edison, whose requested modifications were contained in two petitions, also filed responses to the petitions of CLECA/CSPG, IU, and Luz.

In addition to our consideration of the changes requested by the petitions, the Commission, by this decision, also intends to resolve an inconsistency between D.87-12-066 and D.87-05-060 issued in Application (A.) 82-04-044, et al., the generic standard offer proceeding. The conflict between those orders relates to the costing periods to be used for qualifying facilities.

The petitions are discussed below within the general categories of marginal cost, revenue allocation, and rate design. This discussion will not, however, include a review of the petition filed by Luz. Luz, who was not a party to this proceeding, seeks clarification that Edison was not authorized in D.87-12-066 to modify its method of calculating avoided capacity cost bonus payments to qualifying facilities. According to Luz, Edison believes that this modification is required as a result of changes in the costing periods adopted in D.87-12-066.

In its response to Luz's petition, Edison states that it is working with Luz to resolve this issue. Edison therefore asks that it be given to April 15, 1988, to report the results of its efforts to the Commission or to respond to Luz's petition for modification absent an agreement between the parties.

We encourage Edison's efforts to find an equitable solution to the issue raised by Luz. We therefore grant Edison's request to report on its efforts by April 15 and defer any action on Luz's petition until after that time.

Finally, we note that the California Citrus Mutual has written a letter expressing concern with respect to changes in Edison's agricultural Schedules PA-1 and PA-2 adopted in D.87-12-066. Specifically, the California Citrus Mutual questions the consistency of Special Condition 5 of PA-2 with the discussion of D.87-12-066. The California Citrus Mutual also asks that the difference in demand levels between the PA-1 (less than 35 kW) and PA-2 (above 35 kW) schedules be eliminated.

We have reviewed both the decision and the accompanying tariffs and find that Special Condition 5 of the PA-1 schedule was altered consistent with the request by the Citrus Growers Cooperative and the language of D.87-12-066 at page 355. Specifically, the Citrus Growers Cooperative, the only party making such a request at the time of hearings in this proceeding, asked that the off-peak credit provision of Schedule PA-1 (Special Condition No.5) be reworded to allow disconnecting of load during summer months only. The following language was adopted for Special Condition No. 5 in response to this request:

> "The monthly service charge will be reduced by an off-peak credit of $0.50 per horsepower of connected load. Customers must agree to permit the Company to install, at customer expense, an automatic utility-controlled load disconnecting device designed to prevent the service from being energized during the summer on-peak hours . . . ." (Emphasis added.)

Comparable language was added to Schedule PA-2 (Special Condition 10). We find that this language provides for the relief requested by the Citrus Growers Cooperative and described by the California Citrus Mutual.

If the California Citrus Mutual believes that further improvement of Edison's agricultural schedules is required, we encourage this organization to participate in the workshops being held by Edison and DRA at the current time. The express purpose of these workshops, ordered in D.87-12-066 at page 364, is to provide

a forum in which the reasoning behind the adopted agricultural rate design can be explained and comments from ratepayers in this class can be solicited on possible ways to "fine tune" these schedules. We believe that the California Citrus Mutual's comments in this forum would be most valuable. We note that the workshops have been scheduled for March 31, April 7, April 27, and April 28 in Lancaster, Visalia, Hemet, and Ventura, respectively.

Marginal Cost

Two parties challenged findings in D.87-12-066 related to marginal and avoided energy costs -- Edison and TURN. Edison asserts that the Commission's adoption of DRA's "QF In/QF Out" methodology for determining the incremental energy rate (IER) used in the calculation of avoided energy costs is not supported by "substantial evidence." At the outset, we note that such a "legal" assertion would have been more appropriately raised by Edison in a petition for rehearing. In any event, however, we find that Edison's position is without merit.

The reasons supporting the adoption of DRA's methodology and ultimately the IER of 9,775 Btu/kWh are explicitly recited at pages 206 through 209 of D.87-12-066 and need not be repeated here. We note, however, that these reasons included the basic fact that no party, other than DRA, had presented IER results for the calculation of both marginal and avoided energy costs upon which this Commission could rely. We remind Edison that, if dissatisfied with the adopted IER, it will have a full opportunity to litigate that number in the upcoming hearings in its current Energy Cost Adjustment Clause (ECAC) proceeding, Application (A.) 88-02-016.

TURN's petition requests the updating of marginal energy costs between general rate cases. In D.87-12-066, we found that the complete relitigation in intervening ECAC proceedings of marginal cost structure and levels adopted in the general rate case was inappropriate. It does seem reasonable, however, to consider marginal energy costs in ECAC proceedings, because energy costs are

based on fuel costs, which the ECAC proceedings are designed to quantify.

We appreciate the arguments made by TURN but will not require a recalculation of marginal energy costs prior to the 1989 ECAC. The main reason is our concern that there is just not enough time in Edison's current 1988 ECAC to litigate the issues that are likely to arise. Since we are already implementing new QF energy payment requirements in the current ECAC, we wish to limit wherever possible the scope of other issues to be addressed. We do not expect marginal energy costs to change significantly in the next year, and if they do, we can take appropriate action. We also hope to have, for 1989, a more realistic plan in place to process ECAC rate changes. With the necessary time available we can attend to this issue.

Finally, although raised by no party to this proceeding, the Commission wishes to take notice of a conflict between D.87-12-066 and D.87-05-060 in A.82-04-044, et al., the generic standard offer proceeding. In D.87-12-066 at page 245, we stated as follows: "We concur with Edison...that the record does not support the addition of a super-off-peak period for QFs on Edison's system at this time." Despite this statement, prior to the issuance of D.87-12-066, the Commission had in fact approved a fourth costing period (super off-peak) in conjunction with QF payments. Specifically, in D.87-05-060 in A.82-04-044, et al., Edison had been directed to develop a super off-peak period for qualifying facilities based on the same principles adopted for Pacific Gas and Electric Company (PG&E) in D.86-12-091. By D.88-03-026 in A.82-04-044, et al., Edison has now been directed to file its proposed costing periods by April 8, 1988.

Based on D.87-05-060, it is clear that our statement in D.87-12-066 was in error. We regret our lack of coordination with decisions in other proceedings, but also wish to register our additional disappointment in Edison taking a position in this

proceeding in direct conflict with a Commission order which was already in effect. D.87-12-066 will therefore be modified to reflect the adoption of a fourth costing period for qualifying facilities.

Revenue Allocation

In the petitions filed by both CLECA/CSPG and IU, the parties ask the Commission to clarify the extent to which revenue allocation will be an issue in Edison's 1988 ECAC proceeding (A.88-02-016). According to CLECA/CSPG, because of conflicts between the text and the findings and conclusions in D.87-12-066, the extent to which the Commission intended this issue to be heard in Edison's 1988 ECAC is not clear.

Specifically, CLECA/CSPG quotes D.87-12-066 at page 264 as stating that "[f]or rate changes occurring between this rate case and Edison's 1989 ECAC, the rate schedule changes should consider both the system average percentage change [SAPC] methodology and the phased-in EPMC [Equal Percent of Marginal Cost] methodology." CLECA/CSPG also notes that in the text, Edison was further directed "to file proposals using both methods and indicating the utility's preferred approach." (Id.)

In contrast, CLECA-CSPG states that Finding 302 and Conclusion 132 of D.87-12-066 provide that revenue changes between the general rate case and Edison's 1989 ECAC be allocated on the basis of SAPC in order to maintain the rate relationships adopted in this proceeding. CLECA/CSPG believes that to rely solely on SAPC for revenue allocation prior to the 1989 ECAC is in contravention of the Commission's stated policy to move toward a full EPMC revenue allocation for Edison. CLECA/CSPG therefore asks that this finding and conclusion be modified to provide for consideration of an EPMC revenue allocation in Edison's 1988 ECAC and in any other Edison proceeding involving a significant revenue change prior to the next general rate case.

IU similarly notes the inconsistencies between the text and findings of D.87-12-066 with respect to revenue allocation prior to Edison's 1989 ECAC. IU cites, however, Ordering Paragraph 41 which, unlike the finding and conclusion, is consistent with the text of D.87-12-066 and directs Edison to propose rate schedules showing changes by both EPMC and SAPC in proceedings involving rate changes prior to Edison's 1989 ECAC.

IU, like CLECA/CSPG, believes that use of the EPMC methodology for revenue changes is imperative for the Commission to meet its ultimate goal of a full EPMC revenue allocation for Edison "as soon as possible." (D.87-12-066, at p. 262.) In a supplement to its petition for modification, IU further asserts that the exhibits filed by Edison in its current ECAC (A.87-12-016) make clear the importance of applying some form of EPMC revenue allocation in that proceeding. IU states that Edison's showing demonstrates that application of the SAPC revenue allocation moves rate relationships away from EPMC. IU therefore asks that the application of some form of capped EPMC method be considered for revenue allocation in Edison's 1988 ECAC proceeding.

In response to the petitions of both CLECA/CSPG and IU, Edison asserts that the petitions should be denied. Contrary to the position of these parties, it is Edison's opinion that there are no inconsistencies in D.87-12-066. Edison interprets the order as requiring a revenue allocation based on SAPC in Edison's 1988 ECAC, but with Edison providing an example of phased-in EPMC rate levels for purposes of comparison only.

Edison states that it is concerned that litigation in the 1988 ECAC of inter-class revenue allocation, which has just been addressed in the rate case, would likely delay an ECAC forecast decision. Edison asserts that such a delay beyond the June 1, 1988 revision date would adversely affect Edison.

While it is always our hope to provide only the clearest directives in our orders, we agree with CLECA/CSPG and IU that that

goal was not achieved with respect to the revenue allocation to be undertaken in Edison's 1988 ECAC. Our intent in D.87-12-066 was in fact to require Edison to file proposals using both an SAPC and phased-in EPMC methodology in its ECAC indicating its preferred approach. (D.87-12-066, at p. 264.) It was not our intent to prejudge that showing, however, by prescribing that only an SAPC methodology would be adopted. For this reason, Finding 302 and Conclusion 132 require modification.

In making these modifications, we wish, however, to restate our intention not to overburden Edison's ECAC immediately following the general rate case. In this light, Edison is also correct in stating that in D.87-12-066 we sought to limit consideration of revenue allocation in Edison's 1988 ECAC to receiving and comparing illustrations of the two types of revenue allocation methodologies. We share Edison's concern that the full relitigation of revenue allocation issues in its current ECAC could delay a forecast decision and unnecessarily require examination of issues which have only recently been litigated in Edison's general rate case.

Under these circumstances, parties to Edison's ECAC will be permitted to comment on Edison's proposed revenue allocations and provide their own illustrations of an SAPC and a phased-in EPMC allocation. The testimony, however, should not involve a re-examination of the revenue allocation policies which the Commission announced in D.87-12-066.

We similarly reaffirm our statements in D.87-12-066 that "the consideration of revenue allocations issues in ECAC, however, does not and should not include relitigation of the marginal cost structure and levels adopted in the general rate case." (D.87-12-066, at p. 264.) Neither is it the appropriate forum for considering rate design issues. In D.87-12-066, we found that for rate design between general rate cases DRA's proposal to increase demand and customer charges toward their EPMC relationships for

revenue requirement increases and the maintenance of those relationships for decreases was appropriate. (D.87-12-066, at pp. 380-381.)

The need to reevaluate revenue allocation in Edison's ECAC stems directly from our stated policy of achieving an EPMC revenue allocation for Edison "as soon as possible." (D.87-12-066, at p. 262.) We have also recognized that "to achieve our goal of full EPMC and ensure rate stability the adopted revenue allocation for the two years following the test year should be based on the circumstances existing at that time." (Id.) Obviously, such an evaluation cannot be made without the type of illustrative showing that we have required Edison to make and on which other parties may comment.

No such similar policy, however, requires the re-examination in Edison's 1988 ECAC of marginal cost and rate design which were exhaustively explored in the general rate case. Especially given the number of issues which have been included for consideration, there is not enough time from a procedural standpoint to consider such issues.

We, therefore, advise parties who intend to participate in Edison's 1988 ECAC on the issue of revenue allocation that their testimony should be limited to proposed SAPC and phased-in EPMC revenue allocations as indicated above. Because of the number of issues to be heard in the two weeks of hearing scheduled for the forecast phase of Edison's ECAC (May 23 to June 3, 1988), time for presentation of testimony and cross-examination may be extremely limited.

On a different issue, Edison also requests a minor modification to Conclusion 129 which provides that the 5% cap on the EPMC revenue allocation adopted in the general rate case was to be applied to "increases over the system average percentage change." (D.87-12-066, at p. 441.) Edison states that for consistency with the text of the decision and the actual revenue

allocation approach adopted, this language should be changed to reflect that the adopted cap of 5% is based on increases over present rate revenues. Edison is correct in requesting this modification. The text (p. 262), findings (Finding 297, 298), and the adopted revenue allocation (p. 272) in D.87-12-066 reflect our intent to adopt a cap over present rate revenues. Conclusion 129 should, therefore, be modified accordingly.

Rate Design

IU asks that the Commission delete portions of its discussion in D.87-12-066 to better reflect IU's position on TOU-8 demand charges and to permit future proposals aimed at limiting demand charges to a certain percentage of their EPMC level. IU states that the Commission improperly identified IU alone as suggesting that the TOU-8 demand charge should be set at less than EPMC. Further, despite the Commission's acknowledgement that IU's proposal was designed to mitigate adverse bill impacts in the short term, IU asserts that such acknowledgement failed to identify IU's continued advocacy of "full, cost-based rates, demand charges included." (IU Petition, at p. 3.) IU states that it raised a similar argument in its comments to the ALJ proposed decision in this proceeding, but that the Commission failed to change the order in response.

The reason for our conclusion that no change was required in the ALJ proposed decision based on IU's assertions was simple. In reviewing the language at page 320 of the decision, we did not at that time consider that a discrepancy existed in our recitation of IU's position and the position which was taken by the party during this proceeding. This opinion remains unchanged with a second review of the order prompted by IU's petition. We also do not view the statements contained at page 320 to be a "criticism" of IU's position as IU has contended. Specifically, D.87-12-066 states as follows:

> "We do not concur, however, with Edison's and PSD's compromise on 'ratcheting' of demand charges nor with the IU's suggestion of setting the demand charge at less than EPMC. Neither of these recommendations achieve our goal of providing cost-based rates and ensuring accurate price signals to the affected customer group. While we understand that IU's proposal was intended solely as a temporary, transitional device to mitigate adverse rate impacts, we believe, as explained below, that the use of rate limiters is a more appropriate means of achieving this goal." (D.87-12-066, at p. 320.)

These sentences reflect that IU did recommend demand charges being set at less than EPMC and that the suggestion was motivated by a desire to mitigate adverse impacts. We have carefully read IU's petition for modification and find that our understanding of IU's position in this proceeding was in fact correct. The facts that IU remains an advocate of cost-based rates or that others in this proceeding recommended similar adjustments of the demand charges do not require the modification of these statements.

IU even asks in this petition that language on page 321 of D.87-12-066 be deleted to permit proposals aimed at developing demand charges at less than their EPMC level in future rate cases. The language in question states that "we also do not believe it is appropriate to limit demand charges to a certain percentage of their EPMC level." (Id.) This statement is one of current Commission policy, but as such is not an absolute limitation on future showings. IU is certainly free to renew its request for adjusted demand charges in upcoming proceedings. IU will be on notice, however, based on the language of D.87-12-066, of the Commission's current approach to the issue.

IU also states that the Commission has incorrectly referred to the "cost-based" nature of newly adopted interruptible Schedule I-6 when in fact the schedule reflects the value of

interruptibility to Edison. In using the phrase "cost-based" with respect to Schedule I-6, we did not intend that phrase to refer to cost of service, the meaning apparently ascribed to this phrase by IU. Rather, our intent was to refer to the fact that the new interruptible schedule, as proposed by DRA, would be based on marginal cost principles. We believe that our recitation of the parties' positions and discussion of interruptible rates in D.87-12-066 read in their entirety at pages 327 through 338 make this distinction clear. We do not believe, therefore, that any modification of this language is required.

In its petition the Farm Bureau has requested modifications with respect to certain features of the rate design adopted in D.87-12-066 for the agricultural class.

The Farm Bureau asserts that Special Conditions 4 and 5 of Schedule PA-2 which refer to contract demands and minimum demand charges create a "de facto ratchet" on demand charges. The Farm Bureau believes that this result contravenes the Commission's decision in D.87-12-066 not to use ratchets in determining demand charges.

The language of Special Conditions 4 and 5 of Schedule PA-2 questioned by the Farm Bureau in its petition has been in effect for a number of years, but was never an issue in this proceeding. Since our review of that language reveals that these provisions could have a result similar to a ratchet, we wish to address this issue. We are reluctant to make any changes to these conditions absent all parties having the opportunity to be heard. Accordingly, we will schedule two days of hearings for June 13 and 14, 1988, in San Francisco, California.

The Farm Bureau asks that Edison's Schedule PA-2 include a rate limiter for wind machine maintenance. According to the Farm Bureau, the need to test wind machines for winter frost in the summer months requires a short time period of service for which a high price would be paid. The Farm Bureau further asserts that

such a change would be consistent with the rate design adopted for PG&E in D.87-04-012 (at p. 7), would provide the time needed for maintenance and repair, and would not send an improper price signal to the customer.

It is our intention to achieve reasonable consistency in the agricultural rate designs for PG&E and Edison. Often neighboring farmers in differing service territories find themselves receiving service under dissimilar terms. We believe that the change requested by the Farm Bureau could be a reasonable solution to a specific problem and would provide greater consistency between the rate structures of Edison and PG&E.

Again, we do not have the record in this proceeding to determine the form or level at which the rate limiter should be set. Therefore, the Farm Bureau, DRA and Edison should prepare a list of issues with respect to this rate limiter, annotated to show areas of agreement and disagreement. We will consider this list at our June hearing. Hopefully areas of disagreement will be resolved prior to then, and we will have a stipulated agreement that we and other parties can review.

Finally, like the California Citrus Mutual, the Farm Bureau takes exception to the adopted distinction in the agricultural schedules between demand above and below 35 kW. In our original order, our goal was to provide rate design options to agricultural customers consistent with the needs and usage characteristics of those customers and the statutory mandate of Public Utilities Code Section 744. We found in D.87-12-066 at page 362 that the Division of Ratepayer Advocates' (DRA) proposal met and exceeded these statutory and policy goals. Although upon review we are reassured that the present state of the record in this proceeding fully supports our adoption in D.87-12-066 of the distinction in demand levels between the PA-1 and PA-2 schedules as proposed by DRA, we are specifically considering possible modifications in this area in the series of workshops we are

holding with Edison and its Agricultural customers. If modifications can be proposed in the workshops that are consistent with these goals and improve the overall rate design we will consider them during the two days of hearing.

In addition to items mentioned above, the hearing will also serve to receive testimony on the need for and level of revenue required for Edison to provide demand meters under the PA-2 schedule. In its petition for modification, Edison has requested interruptible contractual agreements. Edison states that these agreements are dependent on eligibility for TOU-8 service. Edison suggests that provision be made for these customers to remain on the interruptible rate schedule and the TOU-8 schedule for a period not to exceed five years from January 1, 1988.

While neither of these issues related to TOU-8 eligibility were presented during hearings in the general rate case, both appear to demand our immediate attention. As Edison has correctly noted, it is our intent to place customers on the most appropriate service schedule. For this reason, both of Edison's proposals should therefore be considered at the June hearing. Any response to these proposals can be made at that time.

In addition to these changes sought by Edison, Edison's first and second petitions for modifications addressed several other rate design changes related to D.87-12-066. These additional requested modifications are required to achieve consistency between the findings and the text of D.87-12-066 and between the rate schedules appended to D.87-12-066 and the decision itself. The following modifications requested by Edison will, therefore, be made to achieve this consistency:

1. In its second petition for modification, Edison seeks to change three of the time-of-use agricultural schedules (TOU-ALMP-1, TOU-ALMP-2, and TOU-PA-1) to ensure the proper merging of the winter on-peak period and winter mid-peak period, instead of the winter on-peak with the off-peak as currently provided. This modification will be approved to achieve

consistency with the Commission's decision at pages 243 and 245 of D.87-12-066 to merge the winter on-peak and mid-peak costing periods in time-of-use schedules.

2. For consistency with the discussion at page 324 of D.87-12-066, it is necessary to modify Finding 373 to reflect that the interruptible credits under the TOU-8 schedule are to be allocated on an EPMC basis and not on an incurrence basis as that finding currently reads.

3. For consistency with the discussion at page 324 of D.87-12-066, Finding 374 should be modified to reflect that by allocating the interruptible credit on an EPMC basis, the TOU-8 voltage rate relationships are maintained and there is no need to align the primary and subtransmission voltage energy rates to be equal as required by current Finding 374.

4. Edison has identified six technical or typographical errors in certain of the rate schedules contained in Rate Appendix I of D.87-12-066. To correct these errors the following modifications should be made: (a) Page 9 of TOU-8 Average Summer Rate Limiter and On-Peak Rate Limiter should read "excluding... surcharges, customer charges or minimum demand charges" and include the language "applies to firm service customers only" consistent with page 352 of D.87-12-066. (b) Page 18, Adopted Standby Rates, Special Condition No. 6, On-peak Rate Limiter, should be modified to read 53.733, 66.199, 67.480 c/kWh. (c) Page 23, Adopted Agricultural Rates, Schedule TOU-ALMP-1 summer off-peak rate should be modified to read $0.06008. (d) Page 24, Adopted Agricultural Rates, Schedule TOU-PA-4 (greater than 35 kW) summer on-peak rate should be modified to read $0.10936. (e) Page 24, Adopted Agricultural Rates, Schedule TOU-PA-SOP summer on-peak, summer mid-peak, and winter mid-peak rates should be modified to read $0.08544, $0.06201, and $0.06379, respectively. (f) The language of page 25, Adopted Schedule PA-2, Off-Peak Credit Special Condition which reads "non-coincident demand...should be reduced by an off-peak credit" should be modified to read

"maximum demand...should be reduced by an off-peak credit".

5. Finally, Edison notes that the voltage discounts adopted for Small and Medium Power Rates Schedule GS-2 were calculated based on a time-related summer demand charge of $5.70 and a non-time-related demand charge of $2.60. Because the actual adopted summer demand charge was $8.30/kW, the percentages of the demand charges upon which the voltage discounts are based should be reduced to 2.1 percent for service delivered and metered at voltages from 2KV to 50 KV and 4.9 percent for service delivered and metered at voltages over 50 KV. This change would account for the difference between an $8.30/kW summer demand charge applicable to the voltage discount versus a $5.70/kW time related demand charge applicable to the voltage discount.

Findings of Fact

1. The purpose of this decision is to resolve petitions for modification of D.87-12-066 which seek changes in that order related to marginal cost, revenue allocation, and rate design.

2. In addition to the changes requested by the petitions, the Commission must also consider changes necessary to resolve the conflict between D.87-12-066 and D.87-05-060 issued in A.82-04-044, et al., the generic standard offer proceeding relating to the costing periods to be used for qualifying facilities.

3. The only petition which will not be considered in this decision is that filed by Luz Engineering due to continuing efforts by Edison and Luz to resolve the issue of the appropriate manner in which to calculate avoided capacity cost bonus payments to qualifying facilities.

4. It is reasonable for Edison and Luz to continue their efforts to find an equitable solution to the issue raised by Luz and for Edison to report on those efforts or respond to Luz's petition no later than April 15, 1988.

5. A letter written by the California Citrus Mutual raised concerns regarding the consistency of Special Condition 5 of Edison's Schedule PA-1 with D.87-12-066 and the basis for the distinction in demand levels between Edison's PA-1 and PA-2 schedules.

6. A review of D.87-12-066 shows that the relief requested by the Citrus Growers Cooperative in this proceeding with regard to consistency has been properly incorporated in the language of Special Condition 5.

7. The question of modifications to the distinction in demand levels between the PA-1 and PA-2 schedules originally proposed by DRA is more properly considered in the workshops ordered in D.87-12-066.

8. Any organization or individual who wishes to provide input on any "fine tuning" needed to the agricultural rate design adopted for Edison in D.87-12-066 is encouraged to participate in the workshops.

9. The Commission's adoption of DRA's methodology for determining the incremental energy rate (IER) used in the calculation of avoided energy costs was fully supported by the record in this proceeding as articulated by the Commission at pages 206 through 209 of D.87-12-066 and requires no modification.

10. Neither the record in this proceeding nor findings similar to those related to the updating of the IER used in developing QF prices supports the revision, in Edison's 1988 ECAC, of the marginal cost structure adopted for Edison in D.87-12-066.

11. Issues related to marginal energy costs will be considered for inclusion in Edison's 1989 and subsequent ECACs as appropriate.

12. The presence of a large rate increase request by Edison in its current ECAC is alone not a sufficient reason to relitigate marginal cost structure in that proceeding especially when the issue has been so recently examined in this proceeding and the

level of Edison's ECAC request will undoubtedly be closely scrutinized in upcoming hearings.

13. A conflict exists between D.87-12-066 and D.87-05-060 in A.82-04-044, et al., the generic standard offer proceeding, related to costing periods for qualifying facilities.

14. While the Commission found in D.87-12-066 that Edison was not required to adopt a super-off-peak period for qualifying facilities at this time, the Commission had in fact already approved a fourth costing period (super-off-peak) in conjunction with QF payments in A.82-04-044, et al. (D.87-05-060.)

15. By D.88-03-026 in A.82-04-044, et al., Edison has now been directed to file costing periods consistent with D.87-05-060 by April 8, 1988.

16. Based on D.87-05-060, it is clear that the Commission's statement in D.87-12-066 failing to include a fourth costing period for qualifying facilities was in error and requires modification consistent with D.87-05-060.

17. CLECA/CSPG and IU have cited conflicts within D.87-12-066 as to the extent to which revenue allocation will be an issue in Edison's 1988 ECAC proceeding.

18. Due to the Commission's commitment to achieve an EPMC revenue allocation for Edison "as soon as possible," it is reasonable to consider the issue of revenue allocation, to a limited degree, in the ECAC proceedings preceding Edison's next general rate case.

19. It is reasonable to require the parties to Edison's 1988 ECAC to limit their showings on revenue allocation to illustrations of an SAPC and/or phased-in EPMC revenue allocation or comment on Edison's proposals without a re-examination of the revenue allocation policies adopted in D.87-12-066.

20. It is reasonable to modify Finding 302 and Conclusion 132 of D.87-12-066 consistent with the preceding findings.

21. No policy similar to the Commission's effort to move toward an EPMC revenue allocation for Edison requires the relitigation of marginal cost and rate design in intervening ECAC and offset proceedings.

22. In keeping with the intent of D.87-12-066, offset proceedings and Edison's 1988 ECAC will not be forums for relitigation of the marginal cost structure and rate design adopted in D.87-12-066, except that marginal customer costs will be considered for inclusion in Edison's 1989 and 1990 ECACs.

23. Consistent with the text (p. 262), findings (Findings 297 and 298), and adopted revenue allocation (p. 272) in D.87-12-066, it is reasonable to modify Conclusion 129 to clarify that the 5% cap on the EPMC revenue allocation adopted in D.87-12-066 was to be applied to increases over present rate revenues and not over the system average percentage change.

24. The recitation in D.87-12-066 of IU's position in this proceeding is an accurate statement of that position and requires no modification.

25. The Commission's statement at page 321 of D.87-12-066 regarding the impropriety of limiting demand charges to a certain percentage of their EPMC level is a statement of current Commission policy and, as such, does not limit the proposals of parties in future proceedings, but rather notices those parties of the Commission's current approach to the issue.

26. The phrase "cost-based" as used by the Commission in relation to the new I-6 schedule refers not to the schedule being based on cost of service, but rather on marginal cost principles.

27. The meaning ascribed to "cost-based" above is clear from that portion of D.87-12-066 at pages 327 through 338 when read in its entirety and as such that language requires no modification.

28. It may be appropriate to modify the language of Special Conditions 4 and 5 of agricultural Schedule PA-2 questioned by the Farm Bureau as creating a "de facto" ratchet on demand charges, but

that language was never an issue in this proceeding. Farm Bureau can pursue its requested changes to Special Conditions 4 and 5 of the PA-2 schedule at the current agricultural workshops or at the hearing on June 13 and 14, 1988.

29. It may be appropriate to adopt a rate limiter for wind machine maintenance under Edison's PA-2 schedule prior to Edison's next general rate case in order to provide consistency between the agricultural rate designs adopted for PG&E and Edison and, if properly set, to provide the time needed for maintenance and repair at an appropriate rate level.

30. Because of the absence of any record in this proceeding to determine the form or level at which a rate limiter for wind machine maintenance should be set, it is necessary to go to hearing to receive testimony on this issue.

31. Edison may incur an expense in providing demand meters for those customers who transfer to the PA-2 schedule.

32. Because of the absence of any record in this proceeding to determine the amount of revenue required to provide the demand meters referenced in the above finding, it is necessary to include the issue of the funding level required to provide those meters in the hearing to be scheduled for June 13 and 14, 1988.

33. The following issues regarding TOU-8 eligibility require the Commission's immediate attention: (1) the need to reduce, on a one-time basis, the number of demands below 500 kW within a 12-month period required for a customer to be removed from the TOU-8 schedule and the number of those reduced demands and (2) the length of TOU-8 eligibility to be provided to those customers with 5-year interruptible contractual agreements, but demands below 500 kW.

34. Because no record currently exists in this proceeding to resolve the issues listed in the preceding finding, it is necessary to include these issues during the June hearing to ensure Edison service to customers under the most appropriate rate schedules.

35. It is reasonable to suspend implementation of the mandatory assignment provisions of schedules PA-1 and PA-2 until further notice.

36. In order to ensure consistency between the findings and the text of D.87-12-066 and between the rate schedules appended to D.87-12-066 and the decision itself, it is necessary to modify the decision and rate appendices as requested by Edison and as explicitly listed in the text of this decision.

Conclusions of Law

1. Consideration of the petition for modification of D.87-12-066 filed by Luz should be deferred until after April 15, 1988, on which date Edison should file either a report on the efforts of the parties to reach a solution to the issues raised by Luz or, in the absence of an agreement, a response by Edison to Luz's petition.

2. Organizations or individuals seeking to "fine tune" or better understand the agricultural rate design adopted for Edison in D.87-12-066 should attend the workshops scheduled for that purpose in March and April, 1988, in Edison's service territory.

3. The text of D.87-12-066 at page 245 should be modified to require Edison to develop a fourth costing period (super-off-peak) for qualifying facilities consistent with D.87-05-060 in A.82-04-044, et al.

4. To achieve consistency with the text and intent of D.87-12-066, Finding 302 and Conclusion 132 of that decision should be modified to permit parties to present testimony on revenue allocation in Edison's 1988 ECAC proceeding limited to illustrations of an SAPC and/or phased-in EPMC revenue allocation or comment on Edison's proposals in that proceeding.

5. Edison's intervening ECAC and offset proceedings prior to its next general rate case should not serve as forums for the relitigation of the marginal cost structure, rate design, or revenue allocation policies adopted in D.87-12-066.

6. Conclusion 129 of D.87-12-066 should be modified consistent with the text, findings, and adopted revenue allocation in that decision to provide that the 5% cap on the adopted EPMC revenue allocation was to be applied to increases over present rate revenues.

7. The following rate design issues should receive immediate Commission attention prior to Edison's next general rate case: (1) modification of Special Conditions 4 and 5 of Schedule PA-2 that might create a "de-facto" ratchet on demand charges; (2) the form and level at which a rate limiter for wind machine maintenance should be set under PA-2; (3) possible removal of the mandatory provision, based on capacity, for assignment to Edison's agricultural schedules, PA-1 or PA-2; (4) the revenue required for Edison to provide demand meters to its customers who transfer to the PA-2 schedule; (5) the need to reduce, on a one-time basis, the number of demands below 500 kW within a 12-month period required for a customer to be removed from the TOU-8 schedule and the number of those reduced demands; and (6) the length of TOU-8 eligibility to be provided to those customers with 5-year interruptible contractual agreements, but demands below 500 kW.

8. In the absence of a record in this proceeding to address the above issues, a hearing should be held on June 13 and 14, 1988, in San Francisco, California, to consider those issues.

9. The implementation of the mandatory reassignment of Edison's agricultural customers to PA-1 or PA-2 on the basis of capacity should be suspended.

10. In order to ensure consistency between the findings and the text of D.87-12-077 and between the rate schedules appended to D.87-12-066 and the decision itself, the modifications to D.87-12-066 and Appendix I, requested by Edison and reviewed and approved in the text of this decision, should be adopted.

O R D E R

IT IS ORDERED that:

1. Decision 87-12-066 shall be modified as follows:

   a. Lines 23 through 27 of page 245 shall be deleted and shall be replaced by the following language: "Consistent with D.87-05-060 in A.82-04-044, et al., the generic standard offer proceeding, we also direct Edison to develop a fourth costing period (super-off-peak) for qualifying facilities. In developing this costing period, Edison should follow the dictates of the relevant orders issued in A.82-04-044, et al."

   b. Finding 302 shall be deleted and shall be replaced by the following: "302. For rate changes occurring between this rate case and Edison's 1989 ECAC, it is reasonable to consider the issue of revenue allocation limited to illustrations of an SAPC methodology and the phased-in EPMC methodology with Edison filing proposals using both methods and indicating the utility's preferred approach."

   c. Finding 302a shall be added as follows: "302a. To ensure the continued move toward an EPMC revenue allocation for Edison, it is reasonable to identify in Edison's 1989 and 1990 ECAC proceedings the revenue allocation to be applied to intervening offset filings made after each of these proceedings."

   d. Finding 373 shall be deleted and shall be replaced by the following: "373. In developing TOU-8 rates, it is reasonable to allocate the interruptible credits on an EPMC, rather than an incurrence, basis."

   e. Finding 374 shall be deleted and shall be replaced by the following: "374. Allocating the interruptible credits on an EPMC basis preserves the appropriate

relationships between the rates for TOU-8 secondary, TOU-8 primary, and TOU-8 subtransmission."

f. Conclusion 129 shall be deleted and shall be replaced by the following: "129. A revenue allocation based on an Equal Percent of Marginal Cost (EPMC) approach should be adopted based on moving 1/3 of the way to EPMC in the test year 1988, with a cap for all customer and rate groups of 5% on increases over present rate revenues."

g. Conclusion 132 shall be deleted and shall be replaced by the following: "132. For rate changes occurring between this rate case and Edison's 1989 ECAC, the issue of revenue allocation should be considered limited to illustrations of an SAPC methodology and the phased-in EPMC methodology with Edison filing proposals using both methods and indicating the utility's preferred approach."

h. Conclusion 132a shall be added as follows: "132a. The Commission should determine in Edison's 1989 and 1990 ECAC proceedings the revenue allocation to be applied to intervening offset filings made after each of those proceedings."

2. Appendix I of Decision 87-12-066 shall be modified as follows:

a. Page 6, Small and Medium Power Rates Schedules GS-2, Special Condition No. 8, Voltage Discount, the voltage discounts applicable to summer demand charges shall be modified to read (1) 2.1 percent for service delivered and metered at voltages from 2 KV to 50 KV and (2) 4.9 percent for service delivered and metered at voltages over 50 KV.

b. Page 9, TOU-8 Average Summer Rate Limiter and On-Peak Rate Limiter shall be modified to read "excluding...surcharges, customer charges or minimum demand charges" (instead of "...surcharges or facilities charges")

and shall also include the provision "applies to firm service customers only".

c. Page 18, Standby Rates, Special Condition No. 6, On-Peak Rate Limiter shall be modified to provide 53.733, 66.199, 67.480 c/kWh, instead of 52.051, 64.127, 65.367 c/kWh.

d. Page 23, Agricultural Rates, Schedule TOU-ALMP-1 summer off-peak rate shall be modified to read $0.06008, instead of $0.59972.

e. Page 23, Agricultural Rates, Schedules TOU-ALMP-1, TOU-ALMP-2, and TOU-PA-1 shall be modified to provide for the merging of winter on-peak and mid-peak rates and to provide for the following winter mid-peakand off-peak rates in $/kWh: 8.619 mid-peak and 5.630 off-peak for TOU-PA-1; 8.479 mid-peak and 6.233 off-peak for TOU-ALMP-1; and 18.963 mid-peak and 6.622 off-peak for TOU-ALMP-2. These schedules shall also be modified to provide as follows: "Time Periods are revised by adding Mid-Peak hours of 5:00 p.m. to 9:00 p.m., winter weekdays, except holidays, to Schedule Nos. TOU-ALMP-1 and TOU-ALMP-2, and 8:00 a.m. to 9:00 p.m., winter weekdays, except holidays to Schedule No. TOU-PA-1."

f. Pages 24, Agricultural Rates, Schedule TOU-PA-4 (greater than 35 kW) summer on-peak rate shall be modified to read $0.10936, instead of $0.11936.

g. Page 24, Agricultural Rates, Schedule TOU-PA-SOP summer on-peak rate shall be modified to read $0.08544, summer mid-peak rate shall be modified to read $0.06201, and winter mid-peak rate shall be modified to read $0.06379, instead of $0.08219, $0.05969, and $0.06140, respectively.

h. Page 25, Schedule PA-2, Off-Peak Credit Special Condition shall be modified to read "maximum demand...should be reduced by an off-peak credit" instead of "non-coincident

demand...should be reduced by an off-peak credit."

3. Within 20 days of the effective date of this order, Southern California Edison Company (Edison) shall file, by advice letter, revised tariff sheets reflecting the modifications of D.87-12-066 and Appendix I of that decision adopted in this order.

4. Consideration of the petition for modification of D.87-12-066 filed by Luz Engineering (Luz) shall be deferred until after April 15, 1988, on which date Edison shall file either a report on the efforts of the parties to reach a solution to the issues raised by Luz in its petition or, in the absence of an agreement, a response by Edison to Luz's petition.

5. Edison's intervening ECAC and offset proceedings occurring prior to its next general rate case shall not serve as forums for the relitigation of the marginal cost structure, rate design, or revenue allocation policies adopted in D.87-12-066.

6. A hearing shall be held at 10:00 a.m., on Monday, June 13 and Tuesday, June 14, 1988, in the Commission Courtroom, in San Francisco, California, for the purposes of receiving testimony limited to the following issues: (1) modification of Special Conditions 4 and 5 of Schedule PA-2 that might create a "de-facto" ratchet on demand charges; (2) the form and level at which a rate limiter for wind machine maintenance should be set under Edison's agricultural schedule, PA-2; (3) possible removal of the mandatory provision, based on capacity, for assignment to Edison's agricultural schedules, PA-1 or PA-2; (4) the revenue required for Edison to provide demand meters to its customers who will transfer to the PA-2 schedule; (5) the need to reduce, on a one-time basis, the number of demands below 500 kW within a 12-month period required for a customer to be removed from the TOU-8 schedule and the number of those reduced demands; and (6) the length of TOU-8 eligibility to be provided to those customers with 5-year interruptible contractual agreements, but demands below 500 kW.

Prepared testimony shall be served on parties to this proceeding at least ten days in advance of hearing.

7. Edison shall file, within 20 days of the effective date of this order, changes to tariffs PA-1 and PA-2, suspending the mandatory reassignment of Edison's agricultural customers on the basis of on capacity.

8. Except as otherwise granted in this order, the petitions for modification are denied.

This order is effective today.

Dated April 13, 1988, 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

Decision 88 04 026 APR 13 1988

ORIGINAL

BEFORE THE PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

In the Matter of the Application of Southern California Edison Company for authority to increase rates charged by it for electric service. (Electric) (U 338 E)	Application 86-12-047 (Filed December 26, 1986)
Order Instituting Investigation into the rates, charges, and practices of the Southern California Edison Company.	I.87-01-017 (Filed January 14, 1987)

(See Decision 87-12-066 for appearances.)

O P I N I O N

Order Modifying Decision 87-12-066: Marginal Cost, Revenue Allocation, and Rate Design

On December 22, 1987, the Commission issued Decision (D.) 87-12-066 in this proceeding. Among other things, the order authorized Edison to file new electric rates effective January 1, 1988. These rates were based on the revenue requirement, marginal cost, revenue allocation, and rate design adopted in the decision.

Since the issuance of D.87-12-066, several petitions for modification of that order have been filed. In this decision, the Commission will review and consider those petitions which addressed the portions of D.87-12-066 related to marginal cost, revenue allocation, and rate design.

The petitioners include Southern California Edison Company (Edison), the California Large Energy Consumers Association and the California Steel Producers Group (CLECA/CSPG), the Industrial Users (IU), the California Farm Bureau Federation (Farm Bureau), Toward Utility Rate Normalization (TURN), and Luz Engineering (Luz). Edison, whose requested modifications were contained in two petitions, also filed responses to the petitions of CLECA/CSPG, IU, and Luz.

In addition to our consideration of the changes requested by the petitions, the Commission, by this decision, also intends to resolve an inconsistency between D.87-12-066 and D.87-05-060 issued in Application (A.) 82-04-044, et al., the generic standard offer proceeding. The conflict between those orders relates to the costing periods to be used for qualifying facilities.

The petitions are discussed below within the general categories of marginal cost, revenue allocation, and rate design. This discussion will not, however, include a review of the petition filed by Luz. Luz, who was not a party to this proceeding, seeks clarification that Edison was not authorized in D.87-12-066 to modify its method of calculating avoided capacity cost bonus payments to qualifying facilities. According to Luz, Edison believes that this modification is required as a result of changes in the costing periods adopted in D.87-12-066.

In its response to Luz's petition, Edison states that it is working with Luz to resolve this issue. Edison therefore asks that it be given to April 15, 1988, to report the results of its efforts to the Commission or to respond to Luz's petition for modification absent an agreement between the parties.

We encourage Edison's efforts to find an equitable solution to the issue raised by Luz. We therefore grant Edison's request to report on its efforts by April 15 and defer any action on Luz's petition until after that time.

Finally, we note that the California Citrus Mutual has written a letter expressing concern with respect to changes in Edison's agricultural Schedules PA-1 and PA-2 adopted in D.87-12-066. Specifically, the California Citrus Mutual questions the consistency of Special Condition 5 of PA-2 with the discussion of D.87-12-066. The California Citrus Mutual also asks that the difference in demand levels between the PA-1 (less than 35 kW) and PA-2 (above 35 kW) schedules be eliminated.

We have reviewed both the decision and the accompanying tariffs and find that Special Condition 5 of the PA-1 schedule was altered consistent with the request by the Citrus Growers Cooperative and the language of D.87-12-066 at page 355. Specifically, the Citrus Growers Cooperative, the only party making such a request at the time of hearings in this proceeding, asked that the off-peak credit provision of Schedule PA-1 (Special Condition No.5) be reworded to allow disconnecting of load during summer months only. The following language was adopted for Special Condition No. 5 in response to this request:

> "The monthly service charge will be reduced by an off-peak credit of $0.50 per horsepower of connected load. Customers must agree to permit the Company to install, at customer expense, an automatic utility-controlled load disconnecting device designed to prevent the service from being energized during the summer on-peak hours . . . ." (Emphasis added.)

Comparable language was added to Schedule PA-2 (Special Condition 10). We find that this language provides for the relief requested by the Citrus Growers Cooperative and described by the California Citrus Mutual.

If the California Citrus Mutual believes that further improvement of Edison's agricultural schedules is required, we encourage this organization to participate in the workshops being held by Edison and DRA at the current time. The express purpose of these workshops, ordered in D.87-12-066 at page 364, is to provide a forum in which the reasoning behind the adopted agricultural rate design can be explained and comments from ratepayers in this class can be solicited on possible ways to "fine tune" these schedules. We believe that the California Citrus Mutual's comments in this forum would be most valuable. We note that the workshops have been scheduled for March 31, April 7, April 27, and April 28 in Lancaster, Visalia, Hemet, and Ventura, respectively.

Marginal Cost

Two parties challenged findings in D.87-12-066 related to marginal and avoided energy costs -- Edison and TURN. Edison asserts that the Commission's adoption of DRA's "QF In/QF Out" methodology for determining the incremental energy rate (IER) used in the calculation of avoided energy costs is not supported by "substantial evidence." At the outset, we note that such a "legal" assertion would have been more appropriately raised by Edison in a petition for rehearing. In any event, however, we find that Edison's position is without merit.

The reasons supporting the adoption of DRA's methodology and ultimately the IER of 9,775 Btu/kWh are explicitly recited at pages 206 through 209 of D.87-12-066 and need not be repeated here. We note, however, that these reasons included the basic fact that no party, other than DRA, had presented IER results for the calculation of both marginal and avoided energy costs upon which

this Commission could rely. We remind Edison that, if dissatisfied with the adopted IER, it will have a full opportunity to litigate that number in the upcoming hearings in its current Energy Cost Adjustment Clause (ECAC) proceeding, Application (A.) 88-02-016.

TURN's petition requests the updating of marginal energy costs between general rate cases. In D.87-12-066, we found that the complete relitigation in intervening ECAC proceedings of marginal cost structure and levels adopted in the general rate case was inappropriate. It does seem reasonable, however, to consider marginal energy costs in ECAC proceedings, because energy costs are based on fuel costs, which the ECAC proceedings are designed to quantify.

We appreciate the arguments made by TURN but will not require a recalculation of marginal energy costs prior to the 1989 ECAC. The main reason is our concern that there is just not enough time in Edison's current 1988 ECAC to litigate the issues that are likely to arise. Since we are already implementing new QF energy payment requirements in the current ECAC, we wish to limit wherever possible the scope of other issues to be addressed. We do not expect marginal energy costs to change significantly in the next year, and if they do, we can take appropriate action. We also hope to have, for 1989, a more realistic plan in place to process ECAC rate changes. With the necessary time available we can attend to this issue.

Finally, although raised by no party to this proceeding, the Commission wishes to take notice of a conflict between D.87-12-066 and D.87-05-060 in A.82-04-044, et al., the generic standard offer proceeding. In D.87-12-066 at page 245, we stated as follows: "We concur with Edison...that the record does not support the addition of a super-off-peak period for QFs on Edison's system at this time." Despite this statement, prior to the issuance of D.87-12-066, the Commission had in fact approved a fourth costing period (super off-peak) in conjunction with QF payments. Specifically, in D.87-05-060 in A.82-04-044, et al., Edison had been directed to develop a super off-peak period for qualifying facilities based on the same principles adopted for Pacific Gas and Electric Company (PGandE) in D.86-12-091. By D.88-03-026 in A.82-04-044, et al., Edison has now been directed to file its proposed costing periods by April 8, 1988.

Based on D.87-05-060, it is clear that our statement in D.87-12-066 was in error. We regret our lack of coordination with decisions in other proceedings, but also wish to register our additional disappointment in Edison taking a position in this

proceeding in direct conflict with a Commission order which was already in effect. D.87-12-066 will therefore be modified to reflect the adoption of a fourth costing period for qualifying facilities.

Revenue Allocation

In the petitions filed by both CLECA/CSPG and IU, the parties ask the Commission to clarify the extent to which revenue allocation will be an issue in Edison's 1988 ECAC proceeding (A.88-02-016). According to CLECA/CSPG, because of conflicts between the text and the findings and conclusions in D.87-12-066, the extent to which the Commission intended this issue to be heard in Edison's 1988 ECAC is not clear.

Specifically, CLECA/CSPG quotes D.87-12-066 at page 264 as stating that "[f]or rate changes occurring between this rate case and Edison's 1989 ECAC, the rate schedule changes should consider both the system average percentage change [SAPC] methodology and the phased-in EPMC [Equal Percent of Marginal Cost] methodology." CLECA/CSPG also notes that in the text, Edison was further directed "to file proposals using both methods and indicating the utility's preferred approach." (Id.)

In contrast, CLECA-CSPG states that Finding 302 and Conclusion 132 of D.87-12-066 provide that revenue changes between the general rate case and Edison's 1989 ECAC be allocated on the basis of SAPC in order to maintain the rate relationships adopted in this proceeding. CLECA/CSPG believes that to rely solely on SAPC for revenue allocation prior to the 1989 ECAC is in contravention of the Commission's stated policy to move toward a full EPMC revenue allocation for Edison. CLECA/CSPG therefore asks that this finding and conclusion be modified to provide for consideration of an EPMC revenue allocation in Edison's 1988 ECAC and in any other Edison proceeding involving a significant revenue change prior to the next general rate case.

IU similarly notes the inconsistencies between the text and findings of D.87-12-066 with respect to revenue allocation prior to Edison's 1989 ECAC. IU cites, however, Ordering Paragraph 41 which, unlike the finding and conclusion, is consistent with the text of D.87-12-066 and directs Edison to propose rate schedules showing changes by both EPMC and SAPC in proceedings involving rate changes prior to Edison's 1989 ECAC.

IU, like CLECA/CSPG, believes that use of the EPMC methodology for revenue changes is imperative for the Commission to meet its ultimate goal of a full EPMC revenue allocation for Edison "as soon as possible." (D.87-12-066, at p. 262.) In a supplement to its petition for modification, IU further asserts that the exhibits filed by Edison in its current ECAC (A.87-12-016) make clear the importance of applying some form of EPMC revenue allocation in that proceeding. IU states that Edison's showing demonstrates that application of the SAPC revenue allocation moves rate relationships away from EPMC. IU therefore asks that the application of some form of capped EPMC method be considered for revenue allocation in Edison's 1988 ECAC proceeding.

In response to the petitions of both CLECA/CSPG and IU, Edison asserts that the petitions should be denied. Contrary to the position of these parties, it is Edison's opinion that there are no inconsistencies in D.87-12-066. Edison interprets the order as requiring a revenue allocation based on SAPC in Edison's 1988 ECAC, but with Edison providing an example of phased-in EPMC rate levels for purposes of comparison only.

Edison states that it is concerned that litigation in the 1988 ECAC of inter-class revenue allocation, which has just been addressed in the rate case, would likely delay an ECAC forecast decision. Edison asserts that such a delay beyond the June 1, 1988 revision date would adversely affect Edison.

While it is always our hope to provide only the clearest directives in our orders, we agree with CLECA/CSPG and IU that that

goal was not achieved with respect to the revenue allocation to be undertaken in Edison's 1988 ECAC. Our intent in D.87-12-066 was in fact to require Edison to file proposals using both an SAPC and phased-in EPMC methodology in its ECAC indicating its preferred approach. (D.87-12-066, at p. 264.) It was not our intent to prejudge that showing, however, by prescribing that only an SAPC methodology would be adopted. For this reason, Finding 302 and Conclusion 132 require modification.

In making these modifications, we wish, however, to restate our intention not to overburden Edison's ECAC immediately following the general rate case. In this light, Edison is also correct in stating that in D.87-12-066 we sought to limit consideration of revenue allocation in Edison's 1988 ECAC to receiving and comparing illustrations of the two types of revenue allocation methodologies. We share Edison's concern that the full relitigation of revenue allocation issues in its current ECAC could delay a forecast decision and unnecessarily require examination of issues which have only recently been litigated in Edison's general rate case.

Under these circumstances, parties to Edison's ECAC will be permitted to comment on Edison's proposed revenue allocations and provide their own illustrations of an SAPC and a phased-in EPMC allocation. The testimony, however, should not involve a re-examination of the revenue allocation policies which the Commission announced in D.87-12-066.

We similarly reaffirm our statements in D.87-12-066 that "the consideration of revenue allocations issues in ECAC, however, does not and should not include relitigation of the marginal cost structure and levels adopted in [the general rate case]. (D.87-12-066, at p. 264.) Neither is it the appropriate forum for considering rate design issues. In D.87-12-066, we found that for rate design between general rate cases DRA's proposal to increase demand and customer charges toward their EPMC relationships for

revenue requirement increases and the maintenance of those relationships for decreases was appropriate. (D.87-12-066, at pp. 380-381.)

The need to reevaluate revenue allocation in Edison's ECAC stems directly from our stated policy of achieving an EPMC revenue allocation for Edison "as soon as possible." (D.87-12-066, at p.262.) We have also recognized that "to achieve our goal of full EPMC and ensure rate stability the adopted revenue allocation for the two years following the test year should be based on the circumstances existing at that time." (Id.) Obviously, such an evaluation cannot be made without the type of illustrative showing that we have required Edison to make and on which other parties may comment.

No such similar policy, however, requires the re-examination in Edison's 1988 ECAC of marginal cost and rate design which were exhaustively explored in the general rate case. Especially given the number of issues which have been included for consideration, there is not enough time from a procedural standpoint to consider such issues.

We therefore advise parties who intend to participate in Edison's 1988 ECAC on the issue of revenue allocation that their testimony should be limited to proposed SAPC and phased-in EPMC revenue allocations as indicated above. Because of the number of issues to be heard in the two weeks of hearing scheduled for the forecast phase of Edison's ECAC (May 23 to June 3, 1988), time for presentation of testimony and cross-examination may be extremely limited.

On a different issue, Edison also requests a minor modification to Conclusion 129 which provides that the 5% cap on the EPMC revenue allocation adopted in the general rate case was to be applied to "increases over the system average percentage change." (D.87-12-066, at p. 441.) Edison states that for

consistency with the text of the decision and the actual revenue allocation approach adopted, this language should be changed to reflect that the adopted cap of 5% is based on increases over present rate revenues. Edison is correct in requesting this modification. The text (page 262), findings (Finding 297, 298), and the adopted revenue allocation (page 272) in D.87-12-066 reflect our intent to adopt a cap over present rate revenues. Conclusion 129 should therefore be modified accordingly.

Rate Design

IU asks that the Commission delete portions of its discussion in D.87-12-066 to better reflect IU's position on TOU-8 demand charges and to permit future proposals aimed at limiting demand charges to a certain percentage of their EPMC level. IU states that the Commission improperly identified IU alone as suggesting that the TOU-8 demand charge should be set at less than EPMC. Further, despite the Commission's acknowledgement that IU's proposal was designed to mitigate adverse bill impacts in the short term, IU asserts that such acknowledgement failed to identify IU's continued advocacy of "full, cost-based rates, demand charges included." (IU Petition, at p. 3.) IU states that it raised a similar argument in its comments to the ALJ proposed decision in this proceeding, but that the Commission failed to change the order in response.

The reason for our conclusion that no change was required in the ALJ proposed decision based on IU's assertions was simple. In reviewing the language at page 320 of the decision, we did not at that time consider that a discrepancy existed in our recitation of IU's position and the position which was taken by the party during this proceeding. This opinion remains unchanged with a second review of the order prompted by IU's petition. We also do not view the statements contained at page 320 to be a "criticism" of IU's position as IU has contended. Specifically, D.87-12-066 states as follows:

> "We do not concur, however, with Edison's and PSD's compromise on 'ratcheting' of demand charges nor with the IU's suggestion of setting the demand charge at less than EPMC. Neither of these recommendations achieve our goal of providing cost-based rates and ensuring accurate price signals to the affected customer group. While we understand that IU's proposal was intended solely as a temporary, transitional device to mitigate adverse rate impacts, we believe, as explained below, that the use of rate limiters is a more appropriate means of achieving this goal." (D.87-12-066, at p. 320.)

These sentences reflect that IU did recommend demand charges being set at less than EPMC and that the suggestion was motivated by a desire to mitigate adverse impacts. We have carefully read IU's petition for modification and find that our understanding of IU's position in this proceeding was in fact correct. The facts that IU remains an advocate of cost-based rates or that others in this proceeding recommended similar adjustments of the demand charges do not require the modification of these statements.

IU even asks in this petition that language on page 321 of D.87-12-066 be deleted to permit proposals aimed at developing demand charges at less than their EPMC level in future rate cases. The language in question states that "we also do not believe it is appropriate to limit demand charges to a certain percentage of their EPMC level." (Id.) This statement is one of current Commission policy, but as such is not an absolute limitation on future showings. IU is certainly free to renew its request for adjusted demand charges in upcoming proceedings. IU will be on notice, however, based on the language of D.87-12-066, of the Commission's current approach to the issue.

IU also states that the Commission has incorrectly referred to the "cost-based" nature of newly adopted interruptible Schedule I-6 when in fact the schedule reflects the value of

interruptibility to Edison. In using the phrase "cost-based" with respect to Schedule I-6, we did not intend that phrase to refer to cost of service, the meaning apparently ascribed to this phrase by IU. Rather, our intent was to refer to the fact that the new interruptible schedule, as proposed by DRA, would be based on marginal cost principles. We believe that our recitation of the parties' positions and discussion of interruptible rates in D.87-12-066 read in their entirety at pages 327 through 338 make this distinction clear. We do not believe, therefore, that any modification of this language is required.

In its petition the Farm Bureau has requested modifications with respect to certain features of the rate design adopted in D.87-12-066 for the agricultural class.

The Farm Bureau asserts that Special Conditions 4 and 5 of Schedule PA-2 which refer to contract demands and minimum demand charges create a "de facto ratchet" on demand charges. The Farm Bureau believes that this result contravenes the Commission's decision in D.87-12-066 not to use ratchets in determining demand charges.

The language of Special Conditions 4 and 5 of Schedule PA-2 questioned by the Farm Bureau in its petition has been in effect for a number of years, but was never an issue in this proceeding. Since our review of that language reveals that these provisions could have a result similar

to a ratchet, we wish to address this issue. We are reluctant to make any changes to these conditions absent all parties having the opportunity to be heard. Accordingly, we will schedule two days of hearings for June 13 and 14, 1988, in San Francisco, California.

The Farm Bureau asks that Edison's Schedule PA-2 include a rate limiter for wind machine maintenance. According to the Farm Bureau, the need to test wind machines for winter frost in the summer months requires a short time period of service for which a high price would be paid. The Farm Bureau further asserts that such a change would be consistent with the rate design adopted for PGandE in D.87-04-012 (at p. 7), would provide the time needed for maintenance and repair, and would not send an improper price signal to the customer.

It is our intention to achieve reasonable consistency in the agricultural rate designs for PGandE and Edison. Often neighboring farmers in differing service territories find themselves receiving service under dissimilar terms. We believe that the change requested by the Farm Bureau could be a reasonable solution to a specific problem and would provide greater consistency between the rate structures of Edison and PGandE.

Again, we do not have the record in this proceeding to determine the form or level at which the rate limiter should be set. Therefore, the Farm Bureau, DRA and Edison should prepare a list of issues with respect to this rate limiter, annotated to show areas of agreement and disagreement. We will consider this list at our June hearing. Hopefully areas of disagreement will be resolved prior to then, and we will have a stipulated agreement that we and other parties can review.

Finally, like the California Citrus Mutual, the Farm Bureau takes exception to the adopted distinction in the agricultural schedules between demand above and below 35 kW. In our original order, our goal was to provide rate design options to agricultural customers consistent with the needs and usage characteristics of those customers and the statutory mandate of Public Utilities Code Section 744. We found in D.87-12-066 at page 362 that the Division of Ratepayer Advocates' (DRA) proposal met and exceeded these statutory and policy goals. Although upon review we are reassured that the present state of the record in this proceeding fully supports our adoption in D.87-12-066 of the distinction in demand levels between the PA-1 and PA-2 schedules as proposed by DRA, we are specifically considering possible modifications in this area in the series of workshops we are holding with Edison and its Agricultural customers. If modifications can be proposed in the workshops that are consistent with these goals and improve the overall rate design we will consider them during the two days of hearing.

In addition to items mentioned above, the hearing will also serve to receive testimony on the need for and level of revenue required for Edison to provide demand meters under the PA-2 schedule. In its petition for modification, Edison has requested

additional funds for demand meters for those customers who will transfer to the PA-2 schedule under the rate design adopted in D.87-12-066. Edison claims that this change requires an additional $2,000,000 in revenue.

Like the rate limiter proposed by the Farm Bureau, we have no record in this proceeding from which to determine the level of revenues required by Edison to provide demand meters to its PA-2 customers. To the extent that Edison incurs this expense in implementing the rate design that we eventually adopt, it is our responsibility to ensure that the funds required to put those schedules into effect be made available to the utility. For this reason, the issue of the funding level required to provide demand meters for PA-2 customers will be included in the hearing. The parties are reminded, however, that this hearing will be limited to two days and that all prepared testimony must be served 10 days in advance.

Related to the question of funding meters is the scheduling of their installation. Demand meters must be available to allow assignment to schedule PA-2. Interested parties should address scheduling at the hearing. Obviously, because the issue of mandatory assignment to schedules PA-1 and PA-2 and the funding for demand meters will have a critical impact on implementing the new rate design, we will delay the mandatory assignment provisions of PA-1 and PA-2 until after a decision has been rendered. These schedules will still be in effect, but Edison shall file an advice letter changing these tariffs to allow customers over 35 kW who chose to remain on the PA-1 schedule, and demand-metered customers under 35 kW who chose to remain on the PA-2 schedule to do so until these issues are resolved.

This hearing will also be the forum for one final issue raised by Edison. In Edison's petition, Edison expresses concern with the TOU-8 schedule requirement that customers served under that schedule must have 3 demands over 500 kW within a twelve-month

period. Customers with 12 consecutive demands below 450 kW are to be removed from this schedule.

Prior to January 1, 1988, Edison states that customers could elect to be on the rate or remain on the rate with demands under 450 kW. Over time, according to Edison these customers became "trapped" on this rate because they could not meet the 12 consecutive demands of less than 450 kW to leave the rate.

Edison therefore proposes in its petition that as of January 1, 1988, on a one-time basis, customers who have not had 3 demands over 500 kW within the 12 months prior to that date shall be removed from the rate. Edison also notes that approximately 20 customers who have demands below 500 kW have signed 5-year

interruptible contractual agreements. Edison states that these agreements are dependent on eligibility for TOU-8 service. Edison suggests that provision be made for these customers to remain on the interruptible rate schedule and the TOU-8 schedule for a period not to exceed five years from January 1, 1988.

While neither of these issues related to TOU-8 eligibility were presented during hearings in the general rate case, both appear to demand our immediate attention. As Edison has correctly noted, it is our intent to place customers on the most appropriate service schedule. For this reason, both of Edison's proposals should therefore be considered at the June hearing. Any response to these proposals can be made at that time.

In addition to these changes sought by Edison, Edison's first and second petitions for modifications addressed several other rate design changes related to D.87-12-066. These additional requested modifications are required to achieve consistency between the findings and the text of D.87-12-066 and between the rate schedules appended to D.87-12-066 and the decision itself. The following modifications requested by Edison will therefore be made to achieve this consistency:

1. In its second petition for modification, Edison seeks to change three of the time-of-use agricultural schedules (TOU-ALMP-1, TOU-ALMP-2, and TOU-PA-1) to ensure the proper merging of the winter on-peak period and winter mid-peak period, instead of the winter on-peak with the off-peak as currently provided. This modification will be approved to achieve consistency with the Commission's decision at pages 243 and 245 of D.87-12-066 to merge the winter on-peak and mid-peak costing periods in time-of-use schedules.

2. For consistency with the discussion at page 324 of D.87-12-066, it is necessary to modify Finding 373 to reflect that the interruptible credits under the TOU-8 schedule are to be allocated on an EPMC basis and not on an incurrence basis as that finding currently reads.

3. For consistency with the discussion at page 324 of D.87-12-066, Finding 374 should be modified to reflect that by allocating the interruptible credit on an EPMC basis, the TOU-8 voltage rate relationships are maintained and there is no need to align the primary and subtransmission voltage energy rates to be equal as required by current Finding 374.

4. Edison has identified six technical or typographical errors in certain of the rate schedules contained in Rate Appendix I of D.87-12-066. To correct these errors the following modifications should be made: (a) Page 9 of TOU-8 Average Summer Rate Limiter and On-Peak Rate Limiter should read "excluding... surcharges, customer charges or minimum demand charges" and include the language "applies to firm service customers only" consistent with page 352 of D.87-12-066. (b) Page 18, Adopted Standby Rates, Special Condition No. 6, On-peak Rate Limiter, should be modified to read 53.733, 66.199, 67.480 c/kWh. (c) Page 23, Adopted Agricultural Rates, Schedule TOU-ALMP-1 summer off-peak rate should be modified to read $0.06008. (d) Page 24, Adopted Agricultural Rates, Schedule TOU-PA-4 (greater than 35 kW) summer on-peak rate should be modified to read $0.10936. (e) Page 24, Adopted Agricultural Rates, Schedule TOU-PA-SOP summer on-peak, summer mid-peak, and winter mid-peak rates should be modified to read $0.08544, $0.06201, and $0.06379, respectively. (f) The language of page 25, Adopted Schedule PA-2, Off-Peak Credit Special Condition which reads "non-coincident demand...should be reduced by an off-peak credit" should be modified to read "maximum demand...should be reduced by an off-peak credit".

5. Finally, Edison notes that the voltage discounts adopted for Small and Medium Power Rates Schedule GS-2 were calculated based on a time-related summer demand charge of $5.70 and a non-time-related demand charge of $2.60. Because the actual adopted summer demand charge was $8.30/kW, the percentages of the demand charges upon which the voltage discounts are based should be reduced to 2.1 percent for

2KV to 50 KV and 4.9 percent for service delivered and metered at voltages over 50 KV. This change would account for the difference between an $8.30/kW summer demand charge applicable to the voltage discount versus a $5.70/kW time related demand charge applicable to the voltage discount.

Findings of Fact

1. The purpose of this decision is to resolve petitions for modification of D.87-12-066 which seek changes in that order related to marginal cost, revenue allocation, and rate design.

2. In addition to the changes requested by the petitions, the Commission must also consider changes necessary to resolve the conflict between D.87-12-066 and D.87-05-060 issued in A.82-04-044, et al., the generic standard offer proceeding relating to the costing periods to be used for qualifying facilities.

3. The only petition which will not be considered in this decision is that filed by Luz Engineering due to continuing efforts by Edison and Luz to resolve the issue of the appropriate manner in which to calculate avoided capacity cost bonus payments to qualifying facilities.

4. It is reasonable for Edison and Luz to continue their efforts to find an equitable solution to the issue raised by Luz and for Edison to report on those efforts or respond to Luz's petition no later than April 15, 1988.

5. A letter written by the California Citrus Mutual raised concerns regarding the consistency of Special Condition 5 of Edison's Schedule PA-1 with D.87-12-066 and the basis for the distinction in demand levels between Edison's PA-1 and PA-2 schedules.

6. A review of D.87-12-066 shows that the relief requested by the Citrus Growers Cooperative in this proceeding with regard to consistency has been properly incorporated in the language of Special Condition 5.

7. The question of modifications to the distinction in demand levels between the PA-1 and PA-2 schedules originally proposed by DRA is more properly considered in the workshops ordered in D.87-12-066.

8. Any organization or individual who wishes to provide input on any "fine tuning" needed to the agricultural rate design adopted for Edison in D.87-12-066 is encouraged to participate in the workshops.

9. The Commission's adoption of DRA's methodology for determining the incremental energy rate (IER) used in the calculation of avoided energy costs was fully supported by the record in this proceeding as articulated by the Commission at pages 206 through 209 of D.87-12-066 and requires no modification.

10. Neither the record in this proceeding nor findings similar to those related to the updating of the IER used in developing QF prices supports the revision, in Edison's 1988 ECAC, of the marginal cost structure adopted for Edison in D.87-12-066.

11. Issues related to marginal energy costs will be considered for inclusion in Edison's 1989 and subsequent ECACs as appropriate.

12. The presence of a large rate increase request by Edison in its current ECAC is alone not a sufficient reason to relitigate marginal cost structure in that proceeding especially when the issue has been so recently examined in this proceeding and the level of Edison's ECAC request will undoubtedly be closely scrutinized in upcoming hearings.

13. A conflict exists between D.87-12-066 and D.87-05-060 in A.82-04-044, et al., the generic standard offer proceeding, related to costing periods for qualifying facilities.

14. While the Commission found in D.87-12-066 that Edison was not required to adopt a super-off-peak period for qualifying facilities at this time, the Commission had in fact already

approved a fourth costing period (super-off-peak) in conjunction with QF payments in A.82-04-044, et al. (D.87-05-060).

15. By D.88-03-026 in A.82-04-044, et al., Edison has now been directed to file costing periods consistent with D.87-05-060 by April 8, 1988.

16. Based on D.87-05-060, it is clear that the Commission's statement in D.87-12-066 failing to include a fourth costing period for qualifying facilities was in error and requires modification consistent with D.87-05-060.

17. CLECA/CSPG and IU have cited conflicts within D.87-12-066 as to the extent to which revenue allocation will be an issue in Edison's 1988 ECAC proceeding.

18. Due to the Commission's commitment to achieve an EPMC revenue allocation for Edison "as soon as possible," it is reasonable to consider the issue of revenue allocation, to a limited degree, in the ECAC proceedings preceding Edison's next general rate case.

19. It is reasonable to require the parties to Edison's 1988 ECAC to limit their showings on revenue allocation to illustrations of an SAPC and/or phased-in EPMC revenue allocation or comment on Edison's proposals without a re-examination of the revenue allocation policies adopted in D.87-12-066.

20. It is reasonable to modify Finding 302 and Conclusion 132 of D.87-12-066 consistent with the preceding findings.

21. No policy similar to the Commission's effort to move toward an EPMC revenue allocation for Edison requires the relitigation of marginal cost and rate design in intervening ECAC and offset proceedings.

22. In keeping with the intent of D.87-12-066, offset proceedings and Edison's 1988 ECAC will not be forums for relitigation of the marginal cost structure and rate design adopted in D.87-12-066, except that marginal customer costs will be considered for inclusion in Edison's 1989 and 1990 ECACs.

23. Consistent with the text (page 262), findings (Finding 297, 298) and adopted revenue allocation (page 272) in D.87-12-066, it is reasonable to modify Conclusion 129 to clarify that the 5% cap on the EPMC revenue allocation adopted in D.87-12-066 was to be applied to increases over present rate revenues and not over the system average percentage change.

24. The recitation in D.87-12-066 of IU's position in this proceeding is an accurate statement of that position and requires no modification.

25. The Commission's statement at page 321 of D.87-12-066 regarding the impropriety of limiting demand charges to a certain percentage of their EPMC level is a statement of current Commission policy and, as such, does not limit the proposals of parties in future proceedings, but rather notices those parties of the Commission's current approach to the issue.

26. The phrase "cost-based" as used by the Commission in relation to the new I-6 schedule refers not to the schedule being based on cost of service, but rather on marginal cost principles.

27. The meaning ascribed to "cost-based" above is clear from that portion of D.87-12-066 at pages 327 through 338 when read in its entirety and as such that language requires no modification.

28. It may be appropriate to modify the language of Special Conditions 4 and 5 of agricultural Schedule PA-2 questioned by the Farm Bureau as creating a "de facto" ratchet on demand charges, but that language was never an issue in this proceeding. Farm Bureau can pursue its requested changes to Special Conditions 4 and 5 of the PA-2 schedule at the current agricultural workshops or at the hearing on June 13 and 14, 1988.

29. deleted.

30. It may be appropriate to adopt a rate limiter for wind machine maintenance under Edison's PA-2 schedule prior to Edison's

next general rate case in order to provide consistency between the agricultural rate designs adopted for PGandE and Edison and, if properly set, to provide the time needed for maintenance and repair at an appropriate rate level.

31. Because of the absence of any record in this proceeding to determine the form or level at which a rate limiter for wind machine maintenance should be set, it is necessary to go to hearing to receive testimony on this issue.

32. Edison may incur an expense in providing demand meters for those customers who transfer to the PA-2 schedule.

33. Because of the absence of any record in this proceeding to determine the amount of revenue required to provide the demand meters referenced in the above finding, it is necessary to include the issue of the funding level required to provide those meters in the hearing to be scheduled for June 13 and 14, 1988.

34. The following issues regarding TOU-8 eligibility require the Commission's immediate attention: (1) the need to reduce, on a one-time basis, the number of demands below 500 kW within a 12-month period required for a customer to be removed from the TOU-8 schedule and the number of those reduced demands and (2) the length of TOU-8 eligibility to be provided to those customers with 5-year interruptible contractual agreements, but demands below 500 kW.

35. Because no record currently exists in this proceeding to resolve the issues listed in the preceding finding, it is necessary to include these issues during the June hearing to ensure Edison service to customers under the most appropriate rate schedules.

36. It is reasonable to suspend implementation of the mandatory assignment provisions of schedules PA-1 and PA-2 until further notice.

37. In order to ensure consistency between the findings and the text of D.87-12-066 and between the rate schedules appended to D.87-12-066 and the decision itself, it is necessary to modify the

decision and rate appendices as requested by Edison and as explicitly listed in the text of this decision.

Conclusions of Law

1. Consideration of the petition for modification of D.87-12-066 filed by Luz should be deferred until after April 15, 1988, on which date Edison should file either a report on the efforts of the parties to reach a solution to the issues raised by Luz or, in the absence of an agreement, a response by Edison to Luz's petition.

2. Organizations or individuals seeking to "fine tune" or better understand the agricultural rate design adopted for Edison in D.87-12-066 should attend the workshops scheduled for that purpose in March and April, 1988, in Edison's service territory.

3. The text of D.87-12-066 at page 245 should be modified to require Edison to develop a fourth costing period (super-off-peak) for qualifying facilities consistent with D.87-05-060 in A.82-04-044, et al.

4. To achieve consistency with the text and intent of D.87-12-066, Finding 302 and Conclusion 132 of that decision should be modified to permit parties to present testimony on revenue allocation in Edison's 1988 ECAC proceeding limited to illustrations of an SAPC and/or phased-in EPMC revenue allocation or comment on Edison's proposals in that proceeding.

5. Edison's intervening ECAC and offset proceedings prior to its next general rate case should not serve as forums for the relitigation of the marginal cost structure, rate design, or revenue allocation policies adopted in D.87-12-066.

6. Conclusion 129 of D.87-12-066 should be modified consistent with the text, findings, and adopted revenue allocation in that decision to provide that the 5% cap on the adopted EPMC revenue allocation was to be applied to increases over present rate revenues.

7. The following rate design issues should receive immediate Commission attention prior to Edison's next general rate case: (1) modification of Special Conditions 4 and 5 of Schedule PA-2 that might create a "de-facto" ratchet on demand charges; (2) the form and level at which a rate limiter for wind machine maintenance should be set under PA-2; (3) possible removal of the mandatory provision, based on capacity, for assignment to Edison's agricultural schedules, PA-1 or PA-2; (4) the revenue required for Edison to provide demand meters to its customers who transfer to the PA-2 schedule; (5) the need to reduce, on a one-time basis, the number of demands below 500 kW within a 12-month period required for a customer to be removed from the TOU-8 schedule and the number of those reduced demands; and (6) the length of TOU-8 eligibility to be provided to those customers with 5-year interruptible contractual agreements, but demands below 500 kW.

8. In the absence of a record in this proceeding to address the above issues, a hearing should be held on June 13 and 14, 1988, in San Francisco, California, to consider those issues.

9. The implementation of the mandatory reassignment of Edison's agricultural customers to PA-1 or PA-2, depending on capacity, should be suspended.

10. In order to ensure consistency between the findings and the text of D.87-12-077 and between the rate schedules appended to D.87-12-066 and the decision itself, the modifications to D.87-12-066 and Appendix I, requested by Edison and reviewed and approved in the text of this decision, should be adopted.

O R D E R

IT IS ORDERED that:

1. Decision 87-12-066 shall be modified as follows:

   a. Lines 23 through 27 of page 245 shall be deleted and shall be replaced by the following language: "Consistent with D.87-05-060 in A.82-04-044, et al., the generic standard offer proceeding, we also direct Edison to develop a fourth costing period (super-off-peak) for qualifying facilities. In developing this costing period, Edison should follow the dictates of the relevant orders issued in A.82-04-044, et al."

b. Finding 302 shall be deleted and shall be replaced by the following: "302. For rate changes occurring between this rate case and Edison's 1989 ECAC, it is reasonable to consider the issue of revenue allocation limited to illustrations of an SAPC methodology and the phased-in EPMC methodology with Edison filing proposals using both methods and indicating the utility's preferred approach."

c. Finding 302a shall be added as follows: "302a. To ensure the continued move toward an EPMC revenue allocation for Edison, it is reasonable to identify in Edison's 1989 and 1990 ECAC proceedings the revenue allocation to be applied to intervening offset filings made after each of these proceedings."

d. Finding 373 shall be deleted and shall be replaced by the following: "373. In developing TOU-8 rates, it is reasonable to allocate the interruptible credits on an EPMC, rather than an incurrence, basis."

e. Finding 374 shall be deleted and shall be replaced by the following: "374. Allocating the interruptible credits on an EPMC basis preserves the appropriate relationships between the rates for TOU-8 secondary, TOU-8 primary, and TOU-8 subtransmission."

f. Conclusion 129 shall be deleted and shall be replaced by the following: "129. A revenue allocation based on an Equal Percent of Marginal Cost (EPMC) approach should be adopted based on moving 1/3 of the way to EPMC in the test year 1988, with a cap for all customer and rate groups of 5% on increases over present rate revenues."

g. Conclusion 132 shall be deleted and shall be replaced by the following: "132. For rate changes occurring between this rate case and Edison's 1989 ECAC, the issue of revenue allocation should be considered limited to illustrations of an SAPC

methodology and the phased-in EPMC methodology with Edison filing proposals using both methods and indicating the utility's preferred approach."

h. Conclusion 132a shall be added as follows:"132a. The Commission should determine in Edison's 1989 and 1990 ECAC proceedings the revenue allocation to be applied to intervening offset filings made after each of those proceedings."

2. Appendix I of Decision 87-12-066 shall be modified as follows:

a. Page 6, Small and Medium Power Rates Schedules GS-2, Special Condition No. 8, Voltage Discount, the voltage discounts applicable to summer demand charges shall be modified to read (1) 2.1 percent for service delivered and metered at voltages from 2 KV to 50 KV and (2) 4.9 percent for service delivered and metered at voltages over 50 KV.

b. Page 9, TOU-8 Average Summer Rate Limiter and On-Peak Rate Limiter shall be modified to read "excluding...surcharges, customer charges or minimum demand charges" (instead of "...surcharges or facilities charges") and shall also include the provision "applies to firm service customers only".

c. Page 18, Standby Rates, Special Condition No. 6, On-Peak Rate Limiter shall be modified to provide 53.733, 66.199, 67.480 c/kWh, instead of 52.051, 64.127, 65.367 c/kWh.

d. Page 23, Agricultural Rates, Schedule TOU-ALMP-1 summer off-peak rate shall be modified to read $0.06008, instead of $0.59972.

e. Page 23, Agricultural Rates, Schedules TOU-ALMP-1, TOU-ALMP-2, and TOU-PA-1 shall be modified to provide for the merging of winter on-peak and mid-peak rates and to provide for the following winter mid-peak

and off-peak rates in $/kWh: 8.619 mid-peak and 5.630 off-peak for TOU-PA-1; 8.479 mid-peak and 6.233 off-peak for TOU-ALMP-1, and 18.963 mid-peak and 6.622 off-peak for TOU-ALMP-2. These schedules shall also be modified to provide as follows: "Time Periods are revised by adding Mid-Peak hours of 5:00 p.m. to 9:00 p.m., winter weekdays, except holidays, to Schedule Nos. TOU-ALMP-1 and TOU-ALMP-2, and 8:00 a.m. to 9:00 p.m., winter weekdays, except holidays to Schedule No. TOU-PA-1."

f. Pages 24, Agricultural Rates, Schedule TOU-PA 4 (greater than 35 kW) summer on-peak rate shall be modified to read $0.10936, instead of $0.11936.

g. Page 24, Agricultural Rates, Schedule TOU-PA-SOP summer on-peak rate shall be modified to read $0.08544, summer mid-peak rate shall be modified to read $0.06201, and winter mid-peak rate shall be modified to read $0.06379, instead of $0.08219, $0.05969, and $0.06140, respectively.

h. Page 25, Schedule PA-2, Off-Peak Credit Special Condition shall be modified to read "maximum demand...should be reduced by an off-peak credit" instead of "non-coincident demand...should be reduced by an off-peak credit."

3. Within 20 days of the effective date of this order, Southern California Edison Company (Edison) shall file, by advice letter, revised tariff sheets reflecting the modifications of D.87-12-066 and Appendix I of that decision adopted in this order.

4. Consideration of the petition for modification of D.87-12-066 filed by Luz Engineering (Luz) shall be deferred until after April 15, 1988, on which date Edison shall file either a report on the efforts of the parties to reach a solution to the issues raised by Luz in its petition or, in the absence of an agreement, a response by Edison to Luz's petition.

5. Edison's intervening ECAC and offset proceedings occurring prior to its next general rate case shall not serve as forums for the relitigation of the marginal cost structure, rate design, or revenue allocation policies adopted in D.87-12-066.

6. A hearing shall be held at 10:00 a.m. on Monday, May 16, 1988, in the Commission Courtroom, in San Francisco, California, for the purposes of receiving testimony limited to the following issues: (1) the level at which a rate limiter for wind machine maintenance should be set under Edison's agricultural schedule, PA-2; (2) the revenue required for Edison to provide demand meters to its customers who will be transferred to the PA-2 schedule under the rate design adopted in D.87-12-066; (3) the need to reduce, on a one-time basis, the number of demands below 500 kW within a 12-month period required for a customer to be removed from the TOU-8 schedule and the number of those reduced demands; and (4) the length of TOU-8 eligibility to be provided to those customers with 5-year interruptible contractual agreements, but demands below 500 kW. Prepared testimony shall be served on parties to this proceeding at least ten days in advance of hearing.

7. Except as otherwise granted in this order, the petitions for modification are denied.

This order is effective today.

Dated APR 13 1988, 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.