

Mailed

MAY 27 1988

Decision 88-05-074 May 25, 1988

BEFORE THE PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

In the Matter of the Application of)
 the Southern California Edison)
 Company (U 338-E) for: (1) Authority)
 to Increase Its Energy Cost)
 Adjustment Billing Factors, Increase)
 Its Annual Energy Rate, and Increase)
 Its Electric Revenue Adjustment)
 Billing Factor Effective June 1,)
 1988; (2) Authority to Implement)
 Modifications to its Energy Cost)
 Adjustment Clause as More)
 Specifically Set Forth in this)
 Application; (3) Authority to Revise)
 the Incremental Energy Rate, the)
 Energy Reliability Index, and)
 Avoided Cost Pricing; (4) Review)
 of the Reasonableness of Edison's)
 Operations During the Period from)
 December 1, 1986, through)
 November 30, 1987; and (5) Review)
 of the Reasonableness of Edison)
 Payments to Qualifying Facilities)
 Under Nonstandard Contracts During)
 the Period from December 1, 1984,)
 through November 30, 1987.)

ORIGINAL

Application 88-02-016
(Filed February 11, 1988)

INTERIM OPINION

By this application, the Southern California Edison Company (Edison) originally requested an increase of \$627.9 million in its electric rates on an annualized basis effective June 1, 1988. This requested increase of approximately 11.6 percent above present rate levels was based on revenue requirement increases related to Edison's Energy Cost Adjustment Clause (ECAC), Annual Energy Rate (AER), and Electric Revenue Adjustment Mechanism (ERAM). Additionally, Edison sought approval of the reasonableness of its operations for the 1987 reasonableness review period and the

reasonableness of its nonstandard contracts with qualifying facilities for a three-year period beginning December 1, 1984.

As part of its application, Edison also requested that its proposed AER be implemented on an interim basis on June 1, 1988, and remain in effect until a final Commission decision for the forecast period. The AER is a fixed rate, a percentage of the ECAC, which is not subject to balancing account treatment and which makes a portion of fuel and purchased power costs recoverable on a fixed, forecast basis. After being reduced and ultimately suspended in 1986, an AER for Edison was recently restored to its original 10% level in Edison's 1987 ECAC proceeding.

(D.87-11-013.) Based on its originally requested relief, Edison's proposed AER revenue increase for its 1988 ECAC was \$55.5 million.

In support of its requested interim relief, Edison asserted in its application that the complexity of past ECAC proceedings, the recent addition of new issues in this proceeding, and a history of delays in ECAC proceedings made it unlikely that a Commission decision adopting annual ECAC rates would be issued by Edison's June 1, 1988, revision date. The new issues to which Edison referred stemmed from recent Commission decisions in Edison's most general rate case (A.86-12-047) and the generic standard offer proceeding (A.82-02-044, et al.). Primarily, these issues relate to the determination of factors used in the calculation of prices paid by the utility to qualifying facilities.

Because of these circumstances, it was Edison's opinion that adoption on an interim basis of Edison's proposed AER would mitigate the risks to ratepayers and shareholders from either understatement or overstatement of AER revenues during periods of changing energy prices. (A.88-02-016, at p. 25-26.) Edison further stated that variations in AER revenue, resulting from the difference between Edison's proposed interim AER and the final AER adopted in this proceeding, could be reflected in subsequent adjustments to the ECAC balancing account and future ECAC rates.

On February 26, 1988, a prehearing conference was held to establish the hearing schedule for this proceeding and to address other procedural matters. Following the prehearing conference, an Administrative Law Judge (ALJ) ruling was issued on March 2, 1988, adopting a schedule similar to one proposed by the Division of Ratepayer Advocates (DRA). DRA's proposal included the suggestion that A.88-02-016 be bifurcated into two phases with an interim rate decision effective June 1, 1988.

In the March 2 ruling, the ALJ found that DRA's proposed approach offered sufficient time for parties to address the several time consuming issues and procedures new to Edison's ECAC. As stated by the ALJ, DRA's proposal also afforded the Commission the opportunity to grant Edison interim rate relief, if necessary, as of Edison's June 1 ECAC revision date.

The adopted schedule therefore provided for an interim order and separate hearing phases for forecast and reasonableness issues. In keeping with this approach, all parties were given the opportunity to file comments on the interim rate relief order on April 20, 1988. These comments, which were to be filed following the submission of testimony on the forecast phase, were to focus not only on the level of interim rate relief to be adopted, but also the appropriate mechanism for effecting that relief. Edison's suggestion to update its forecast filing ten days prior to the submission of DRA's report on the forecast issues was also adopted.

On March 10, 1988, as directed by the ALJ, Edison responded to certain other procedural issues raised by DRA during the prehearing conference. This response, however, also contained a further statement by Edison regarding interim rate relief. In that filing, Edison indicated that its interim AER proposal was still an option, but that Edison would also support an interim rate increase reflected as all ECAC-related expenses with a temporary suspension of the AER. In Edison's opinion, this latter approach would be easier to administer than subsequent adjustments to rates

and the ECAC balancing account and has been utilized by the Commission in the past, thereby mitigating concerns regarding retroactive ratemaking issues." (Edison March 10 Response, at p. 4.)

On March 28, 1988, Edison updated its forecast filing. In this filing, Edison reduced its requested revenue increase from \$627.9 million to \$484.1 million, a \$143.8 million reduction in Edison's original request. According to the updated filing, this reduction was the result of reflecting resource mix and energy price changes and recorded ECAC and ERAM balancing account information for January and February 1988.

On April 5, 1988, DRA served its forecast evaluation report in this proceeding on all parties. Based on its analysis of Edison's forecast period sales, resource mix, and prices, DRA recommended a revenue increase for Edison of \$382.5 million. DRA stated, however, that its testimony did not take into account Edison's "update" testimony or a required rerunning of the ELFIN production cost model for both resource mix and revenue requirement purposes. This information, according to DRA, would be analyzed and its recommendations revised, if necessary, in supplemental testimony to be submitted by DRA prior to the forecast phase hearings scheduled to commence on May 23, 1988.

On April 15, 1988, testimony was received from interested parties on all issues related to the forecast phase except revenue allocation. By ALJ ruling, the deadline for revenue allocation testimony was extended to April 22, 1988, in order for that testimony to reflect the Commission's findings in D.88-04-026 issued on April 13, 1988, in Edison's test year 1988 general rate case (A.86-12-047).

On April 20 and 21, 1988, comments were received by various parties on the issue of interim rate relief in this proceeding. These comments were filed by Edison, DRA, Toward Utility Rate Normalization (TURN), the California Manufacturers

Association (CMA), the California Large Energy Consumers Association (CLECA), the Industrial Users (IU), the Department of General Services (DGS), and the Western Mobilehome Association (WMA).

Primarily, the comments address three basic issues: (1) the need for and level of any interim rate change in this proceeding, (2) the implementation of that increase, and (3) the revenue allocation and rate design to be applied to the increase. The views of each of the parties commenting on these issues are summarized below.

The only party not addressing these issues in its comments was WMA. Because of this difference, we will review and respond to WMA's comments separately.

We note that the comments which we received were based on the filings which had been made prior to April 21, 1988. Since that time, however, additional submissions have been made by both DRA and Edison. Specifically, on May 13, 1988, DRA served on all parties its supplemental prepared testimony to be presented at the May 23 hearings in the forecast phase. Based on data contained in Edison's updated ECAC filing and changes in both snow pack conditions and qualifying facility capacity factors and start-up dates since Edison filed its application, DRA has increased its recommended revenue requirement. DRA now recommends a revenue increase for Edison of \$402.5 million for the forecast period, a 5.2% increase over DRA's original figure of \$382.5 million.

On May 14, 1988, Edison also submitted additional prepared testimony in this proceeding. Based on its most recent data, Edison's estimate of energy resource mix and expenses has decreased \$4.7 million, yielding a requested revenue requirement of \$479.4 million.

I. WMA Comments

A. WMA's Request

In its comments, WMA states that it has "no specific comment on the level of, or mechanism for, interim rate relief." Instead, WMA asks that the Commission modify the diversity adjustment applied to rates charged under Edison's DMS-2 schedule based on any change in residential rates adopted in this proceeding. The DMS-2 schedule applies to submetered mobilehome domestic customers.

B. Discussion

In recent general rate case decisions, including D.87-12-066 relating to Edison's 1988 test year, the Commission has recognized the existence of a diversity benefit which arises when a master-metered customer is billed more sales at baseline rates and less sales at nonbaseline rates than are actually consumed by his submetered customers. The diversity adjustment serves to avoid subsidization of master metered customers by all other residential ratepayers resulting from an overallocation of kilowatt-hours (kWh) at lower baseline rates.

In D.88-04-028, the Commission specifically denied a petition for rehearing of D.87-12-066 filed by WMA. In that petition, WMA had alleged, among other things, that the Commission had erred by not providing for modification of the diversity adjustment in subsequent residential rate adjustment cases. In denying WMA's petition in D.88-04-028, the Commission emphasized that "Edison has already been directed to derive diversity factors for its next general rate case based on the usage pattern of mobile home parks which it individually meters." Additionally, in D.88-04-026, issued the same days as D.88-04-028, the Commission found that "[i]n keeping with the intent of D.87-12-066, ...Edison's 1988 ECAC will not be [a forum] for relitigation of the

marginal cost structure and rate design adopted in D.87-12-066." (D.88-04-026, Finding 22, at p. 19.)

We note that D.88-04-026 and D.88-04-028 were issued prior to the due date in this proceeding for comments on interim rate relief and prepared testimony on rate design and revenue allocation. Nevertheless, WMA persists in both its comments and prepared testimony to attempt to raise the issue of modification of the diversity adjustment in this proceeding. In both documents, WMA has included a computer model embodying its methodology for calculating the diversity adjustment.

We reject WMA's renewed attempt to litigate the issue of the calculation or modification of the diversity adjustment in this proceeding. D.87-12-066, D.88-04-026, and D.88-04-028 make clear that the issue of the diversity adjustment is not to be considered in this proceeding.

We also remind WMA that its diversity estimate was adopted in D.87-12-066 largely because it "closely mirrored" the level of adjustment adopted for Pacific Gas and Electric Company. Neither of the methodologies presented by Edison or WMA, however, were found to provide an appropriate basis for calculating the diversity adjustment in the future. We therefore did not approve WMA's methodology based on a sample of 29 units nor did we order any adjustment of WMA's estimate based on that methodology prior to the next general rate case. Instead, the goal of D.87-12-066 had been to adopt the best available adjustment factor (WMA's) and to direct Edison for its next general rate case to provide an adjustment based on a more appropriate methodology. That methodology, also referenced in D.88-04-028, is to be based on the usage patterns of mobilehome parks which Edison individually meters.

We therefore find that WMA's comments and proposed testimony in this proceeding are beyond the scope of this proceeding. We suggest that WMA devote its efforts to developing a

diversity adjustment methodology for Edison's next general rate case consistent with the findings of D.87-12-066.

II. Interim Rate Relief Comments

Before reviewing the various parties' positions on this issue, we wish to recite the requirements of § 454.5 of the Public Utilities (PU) Code for ease of reference. This code section, which has been cited by several of the parties, provides as follows:

"Whenever an electrical corporation requests a rate adjustment reflecting and passing through to customers a specific fuel cost increase, the commission may grant substantial but not complete rate relief. Substantial relief is defined as an amount not to exceed 80 percent of the rate adjustment request. Within 60 days of such request, a hearing shall be held and the balance of the rate relief request shall be granted if found by the commission to be justified."

A. Parties Positions

1. Need for and Level of the Interim Rate Increase

In its comments filed on April 21, 1988, Edison abandons its request for an interim AER and instead asks the Commission to grant Edison an interim rate increase for 100% ECAC-related expenses based on a percentage of its overall requested revenue change. Edison states that by virtue of § 454.5, the Commission has the authority to order interim relief in this proceeding in the amount of \$502 million or 80% of Edison's initial request. However, given its first updated request of \$484 million, Edison believes that an increase in the amount of \$387 million or 80% of this updated request would be more appropriate.

As additional authority for this requested action, Edison cites the recent California Supreme Court decision in Toward Utility Rate Normalization v. Public Utilities Commission, 44 Cal.

3d 870 (1988) (TURN). Edison notes that in that decision the court upheld the Commission's authority to establish interim rates for investment-related costs. Additionally, Edison states that the court specifically rejected arguments by TURN that the Commission was powerless to allow interim rates in the absence of a financial emergency or agreement between the parties on the investment costs to be covered by the rates.

In the TURN decision, Edison states that the court also referenced an earlier decision, Southern California Edison Co. v. Public Utilities Commission, 20 Cal. 3d 813 (1978). According to Edison, in that decision, the court ruled that the purpose of the ECAC was "to permit prompt rate adjustment to offset unusual changes in fuel costs." (Id., at p. 819.) Edison states that the court further found that such purpose could lawfully be served by adjustments to the balancing account made prior to hearing.

With respect to the need for interim relief, Edison asserts that both its filing as well as DRA's report predict a substantial increase in Edison's fuel and purchased power costs for the forecast period. Edison also notes that DRA's recommended revenue increase of \$382.5 million is only slightly less than Edison's interim rate relief request of \$387 million.

It is also Edison's opinion that its requested interim rate relief is in the best interest of its ratepayers. According to Edison, if it does not begin recovering its increased fuel and purchased power costs, the ECAC balancing account will rise and ratepayers will be required to pay carrying costs on those unrecovered costs in the balancing account. Edison asserts that deferring or seriously reducing any interim rate relief would send incorrect price signals to Edison's ratepayers in the face of increasing costs.

In its comments, DRA similarly supports the temporary suspension of the AER and the granting of interim rate relief based on a percentage of the revenue requirement at issue with the

increase attributed to 100% ECAC-related costs. DRA recommends, however, that the Commission take a conservative approach in determining the level of interim rate relief to be granted in this proceeding. DRA points out that its initial analysis of Edison's application has resulted in a recommended increase of \$382.5 million, far below Edison's initial request. It is DRA's hope that after completing its analysis of Edison's first updated request of \$484.1 million, this recommendation will decrease even further.

DRA therefore requests that the Commission not use DRA's recommended level of increase in granting interim rate relief, but rather that the Commission apply the 80% standard referenced in § 454.5 to DRA's recommendation. Using this approach, DRA states that the interim rate increase would be \$306 million. DRA notes that the Commission has the authority to grant this lower level of relief under § 454.5 which provides that the Commission may, but is not required to, grant an increase equal to 80 percent of the utility's request. DRA notes that its recommended level of interim rate relief represents 49% of Edison's original request and 63% of Edison's updated request.

DRA believes that its recommended level of interim relief is supported by a number of factors. Among other things, DRA asserts that it is likely that its recommended level of revenue requirement will decrease even further once it has the opportunity to incorporate the data included in Edison's update and cross-examination in this proceeding has been completed. DRA also believes that only the lowest reasonable level of interim increase should be adopted. This level, according to DRA, will be sufficient to minimize rate shock, while in turn ensuring that the interim level does not exceed the final adopted revenue requirement.

With respect to the comments of the other parties to this proceeding, each questions the need for any interim rate increase at this time, each notes that ECAC revision dates have rarely been

met in the past, and each objects any interim relief being as much as 80% of either Edison's original or updated request. In their comments, TURN, CMA, and IU also assert that Edison has not provided any real justification for such an extraordinary measure nor has it shown or even alleged that irreparable financial harm will result if the interim relief is not granted.

Other than the magnitude of the requested increase, CMA and IU assert that no other need is claimed by Edison and no adverse consequences of denial of an interim revenue increase to either Edison or its ratepayers is asserted. These parties assert that the recent developments of a decreased request by Edison and a recommendation by DRA well below Edison's request, with further reductions possible, undercut "any plausible rationale" for the interim rate relief requested by Edison.

IU and CLECA also believe that the potential impact of an interim rate increase on such unresolved issues as revenue allocation is a further reason to avoid such an increase at this time. In this regard, IU asserts that the system average percentage change (SAPC) or equal cents per kWh approach frequently used by the Commission for interim increases could not be applied to anything other than a "bare-bones" interim increase. IU states that any other approach would jeopardize the Commission's prerogative to adopt a phased-in EPMC revenue allocation in its final order.

If an interim increase is ordered by the Commission, the interested parties offer varying opinions in their comments on the appropriate level for that relief. Among these parties, TURN supports Edison's original recommendation of the adoption of its proposed AER on an interim basis. TURN notes that while § 454.5 permits interim rate increases, it does not require them.

If the Commission does grant Edison an interim increase, however, TURN asks that the Commission proceed cautiously and grant an increase not to exceed 50% of Edison's revised request or \$242

million, a 4.5% increase in rates. Citing factors which could cause further decreases in the proposed revenue level, such as the actual on-line date of new qualifying facility projects, TURN believes that holding to this level of interim rate increase is required to ensure that the interim relief does not exceed the final rate increase.

CMA, like TURN, similarly supports an interim AER approach. CMA states that with the lower revenue increase currently at issue, an interim AER adjustment, keyed to DRA's revenue requirement, without any change in effective rates becomes even more attractive than when originally proposed by Edison. CMA also believes that no other course of action at this point of the proceeding is justified.

DGS joins TURN in asking that the Commission proceed with caution in granting any interim increase especially in light of the significant difference between DRA's recommendation and Edison's requested relief. DGS states that the worst scenario would be for the Commission to grant interim rate relief greater than that likely to be found reasonable after hearings. Because there have been no hearings yet and a number of issues even under DRA's recommendation are "still highly questionable," DGS recommends that the Commission grant an interim increase of only 60% of Edison's revised requested revenue requirement or \$290.4 million.

It is CLECA's position that the interim revenue requirement not exceed the final increase in rates and that the interim revenue allocation mirror that adopted for the final increase. CLECA believes that this approach is imperative to avoid a highly undesirable "yo-yo" effect on customers' rates.

CLECA therefore recommends, based on the revenue allocation proposals offered in this proceeding, that the Commission grant an interim increase of 1/2 the revenue increase proposed by DRA or \$191.25 million, a 3.55% increase. According to CLECA, if this approach were followed, the revenue requirement for

any customer class, except for streetlighting, would not be raised above its final allocation under the DRA proposal even with an SAPC allocation.

2. Implementation of Interim Rate Increase

The parties' recommended approaches for implementing an interim revenue increase in this proceeding have, in some part, been noted above. Specifically, Edison proposes that all ECAC-related expenses be included in the ECAC balancing account procedure on an interim basis and that the AER be temporarily suspended until the Commission adopts a final AER in the forecast phase. Edison believes that this proposal protects both ratepayers and shareholders, is easy to administer, and is consistent with past Commission practices.

Edison further asserts that the prospective implementation of a new AER from the effective date of the Commission's final decision in the forecast phase will preclude any suggestion of retroactive ratemaking. Based on this reasoning, Edison not only recommends that the AER be temporarily suspended, but also that any revenue allocation changes be made prospectively from the date of the final Commission decision in the forecast phase. Should the level of interim rate relief exceed the final adopted level, Edison notes that the Commission in using Edison's approach can make a correction for this difference through incorporation of the latest ECAC balancing account balance in its final decision, rather than through an order authorizing refunds.

In its comments DRA "conditionally" agrees to the temporary suspension of the AER until the final decision in the forecast phase is issued. This temporary suspension, according to DRA, would permit Edison to avoid any loss or gain from the AER.

DRA states that suspension of the AER would temporarily allow Edison to reflect 100% of its ECAC-related expenses in the ECAC balancing account and would avoid any possibility of retroactive ratemaking caused by any subsequent adjustment of the

AER. The condition attached to DRA's recommendation is that, in temporarily suspending the AER, the Commission make clear in the interim decision that the AER will be automatically reinstated in the final decision. DRA also asks the Commission to state that the AER's temporary suspension cannot be used as a basis for relitigating its validity.

IU joins DRA and Edison in favoring a temporary suspension of the AER if the Commission decides to grant interim relief in this proceeding. IU believes that this approach is preferable to an interim AER from the standpoints of ease of administration and mitigation of concerns regarding retroactive ratemaking.

In contrast, it is TURN's opinion that Edison can be protected against any losses under the AER without any interim rate increase. TURN states that the Commission need only authorize Edison to record the amount of its requested AER increase in a deferred debit account pending resolution of forecast issues. According to TURN, the portion of the increase found to be justified could then be transferred from the deferred debit account to the ECAC balancing account once the Commission has decided the case.

As stated in the previous section, CMA similarly supports the adoption of an interim AER. CMA would alter Edison's original proposal, however, to ensure that the interim AER is based on DRA's recommended revenue requirement level.

DGS recommends that the AER be continued in effect during the interim rate relief period and that 60% of Edison's requested AER increase be granted as interim rate relief. DGS believes that because the AER was only recently reimposed, it is appropriate to keep it in place until evidentiary hearings are held. In DGS's opinion, Edison should not be entitled to a presumption, absent an evidentiary showing, that circumstances have changed so

dramatically since the Commission's decision last November as to require suspension of the AER.

3. Interim Rate Revenue Allocation and Rate Design

Edison recommends that the system average percentage change (SAPC) method be used to allocate to customer classes any interim revenue increase approved in this decision. Edison asserts that this method has been the one traditionally adopted in allocating revenue changes in ECAC proceedings.

In making this recommendation, Edison acknowledges the Commission's intent, as expressed in Edison's most recent general rate case (D.87-12-066 and D.88-04-026), to consider evidence in this proceeding of both SAPC and phased-in equal percentage of marginal cost (EPMC) revenue allocations. Edison asserts, however, that, because evidence on these methodologies has yet to be received in this proceeding, it is preferable to implement an SAPC revenue allocation on an interim basis. It is Edison's opinion that this approach will ensure that the merits of the proposed revenue allocations will not be prejudged and that the Commission will not be prevented from adopting a different methodology in its final decision.

With respect to rate design, Edison notes that in ECAC proceedings the Commission has traditionally reflected revenue changes in energy charges only. Edison recommends that this approach be followed for this interim rate change. In support of its recommendation, Edison again argues that this approach will ensure that the Commission will not have prejudged the issue of whether revenue changes should be spread on an equal percentage basis to energy, customer, and demand charges, as proposed by DRA. Edison also contends that adoption of DRA's approach would result in the premature adjustment of demand charges before new summer seasonal rates have been implemented.

It is DRA's position that the Commission's statements in Edison's most recent general rate case decision (D.87-12-066) clearly reflect the Commission's intent to move toward a full EPMC revenue allocation for Edison by 1990. DRA argues that Edison's recommendation of an SAPC methodology is at odds with this intention, especially in light of the significant rate increase requested by Edison. The result of using Edison's approach would, in DRA's view, lead Edison's rates away from rather than closer to an EPMC revenue allocation.

In its comments, DRA proposes four different revenue allocation scenarios for DRA's proposed interim rate relief level of \$302 million. The four scenarios include the following: (1) 100% SAPC, (2) 2/3 SAPC and 1/3 EPMC, (3) 1/2 SAPC and 1/2 EPMC, (4) 1/2 EPMC and 1/2 SAPC with a 5% cap on rate increases over SAPC. In reviewing these revenue allocation approaches, DRA supports a 1/3 EPMC and 2/3 SAPC approach, consistent with its recommendations in the forecast phase. DRA states that, for all customer classes other than domestic, such an approach would result in a lesser increase than a 100% SAPC revenue allocation.

Alternatively, DRA suggests that the Commission select for each class the lower of the 100% SAPC or DRA's preferred one-third EPMC and two-thirds SAPC allocation. According to DRA, this approach would lower the total interim increase amount, but would minimize rate shock to the domestic class.

Although not addressing rate design in its comments, in its forecast report, DRA recommends a Class Equal Percent Change (CEPC) rate design. The CEPC rate design, according to DRA, increases demand, customer, and energy charges by the same percentage as the revenue requirement increase in the individual rate class. This proposal is to be coupled with DRA's recommended one-third EPMC/two-thirds SAPC revenue allocation.

TURN states that any rate increase approved prior to hearings must be spread to the various customer classes on a

uniform percentage or cents per kWh basis. TURN asserts that absent any record evidence supporting an unequal distribution, the Commission is powerless to adopt one.

It is CMA's position that any interim revenue increase should be limited in a manner so as not to prejudice revenue allocation issues. CMA therefore proposes that the total interim increase be limited to the lowest percentage proposed for any class by any party submitting revenue allocation evidence.

On the issue of rate design, CMA notes that D.88-04-026 modifying D.87-12-066 in Edison's most recent general rate case makes clear that rate design is not an issue in this proceeding. CMA therefore urges the Commission to deny Edison's proposal to reflect all increases in energy charges, a proposal which was rejected for revenue increases between general rate cases in D.87-12-066 and D.88-04-026. In CMA's opinion, the only appropriate rate design proposed for the interim increase is the CEPC approach recommended in DRA's forecast report.

DGS recommends that the interim rate increase be set so that no class receives an increase above that which it would receive with an SAPC revenue allocation. In DGS's opinion, therefore, residential rates should be based on an SAPC revenue allocation, while the revenue to all other classes should be based on a 2/3 SAPC and 1/3 EPMC revenue allocation.

CLECA does not support the use of an SAPC revenue allocation for the interim increase. In CLECA's opinion, the movement toward EPMC should be made even in an interim order to ensure that there is no "yo-yoing" effect between the interim and final rates.

CLECA notes that Edison's rates have recently become far more seasonal, with higher rates charged during the summer months. In CLECA's opinion, the effects of any SAPC-based interim increase effective June 1, 1988, which exceeds the final increase for any class would be aggravated under these circumstances. CLECA also

shares DRA's opinion that an SAPC allocation, even on an interim basis, runs counter to the Commission's stated goal of a full EPMC allocation for Edison.

On the subject of rate design, CLECA recommends, like Edison, that any interim increase be applied only to energy charges. According to CLECA, this approach would minimize the technical problems of designing rates to account for the increase. CLECA also believes that if the interim increase received by some classes of customers exceeds their final increase, it would be unfair for such an increase to be assigned to demand charges just at the beginning of the summer season.

B. Discussion

The preceding comments reflect a diversity of opinion regarding the need for, level, and implementation of an interim rate increase in this proceeding. Before considering the specific issues raised, we will first discuss our authority for granting interim rate relief in an ECAC application.

Specifically, we find that § 454.5 as well as current Commission and judicial precedent provide ample support for interim relief being granted in an ECAC proceeding up to 80% of the revenue requested. § 454.5 clearly permits and contemplates the Commission granting interim rate relief in ECAC proceedings in advance of hearing. In addition to this statutory authority, the California Supreme Court has recently upheld the Commission's authority to grant interim rate increases subject to refund when those increases are related to investment costs reflected in a balancing account. Toward Utility Rate Normalization v. Public Utilities Commission, 44 Cal. 3d 870 (1988) (TURN). The court also found in TURN that the interim increase need not be premised on the presence of a financial emergency or the absence of any dispute regarding the investment costs, but could be based on other circumstances as well.

With respect to the Commission decision upheld by the court in TURN, the Commission had found that the following circumstances justified an interim increase: "the new plant represented a substantial part of the utility's total capital investment, the new plant's operation would result in fuel or energy savings, and a considerable period of time was expected to elapse before final determination of the prudence of the utility's investment in the new plant." (TURN v. CPUC, 44 Cal. 3d at p. 876.) The adequacy of the utility's cash flow in the interim period was also a consideration. In granting the interim increase, the Commission stated its intent not to prejudge the reasonableness of any of the utility's investment costs or to disadvantage either the ratepayers or the utility. (*Id.*; D.86-04-080, at p. 3.)

The preceding statutory, regulatory, and judicial authority are clearly applicable to this proceeding. We also find that the standards set by this precedent have been met in this proceeding and that interim relief for Edison is appropriate.

With respect to the need for an interim increase, we note that several parties challenge the existence of any facts justifying interim rate relief in this proceeding. We disagree with these parties and find that several factors in fact support our granting such relief for Edison. None of these factors suggest the existence of an emergency, but all relate to preserving the financial integrity of the utility, minimizing costs incurred by ratepayers, and ensuring rate stability for Edison's customers. As mentioned previously, however, the existence of a financial emergency is no longer a standard which must be met in granting interim relief.

Among these factors is the presence of issues new to the ECAC proceeding. Consideration of these issues has necessarily delayed the start of hearings in this proceeding in order to permit sufficient time for all parties to prepare testimony and exchange data on the issues to be heard. It is to the advantage of the

utility and ratepayers alike that all issues to be heard in the ECAC are clearly and fully presented to the Commission.

In addition to this delay is the magnitude of Edison's requested rate relief. The size of this increase is made more significant when compared to the de minimus revenue changes resulting from Edison's most recent general rate case. In D.87-12-066 in that proceeding, Edison was directed to reduce its base revenues by \$48.5 million or 0.9% and increase its major additions adjustment clause (MAAC) by \$73.7 million or 1.4 percent. Even with these insubstantial overall revenue changes, the typical Edison residential customer experienced a 4.4% rate increase due to the movement toward an EPMC revenue allocation.

These revenue changes obviously pale next to either Edison's original request (\$627.9 million) or even its second revised request (\$479.4 million) in the instant ECAC application. Should the Commission continue the movement of Edison's rates toward an EPMC revenue allocation in this proceeding, a revenue increase of this size could result in a substantial rate increase to not only residential, but commercial and industrial customers as well.

We note that several parties assert that the revenue requirement for Edison in this proceeding is quickly decreasing. These statements were based on DRA's recommended revenue requirement of \$382.5 million and DRA's assertion that further reductions might result following its analysis of Edison's updated filing. As it has turned out, however, DRA's supplemental testimony submitted on May 13, 1988, now includes an increase in DRA's recommended revenue requirement to \$402.5 million based on the most recent data available on weather and fuel cost conditions affecting the forecast period. Edison's additional prepared testimony yielded only a minor decrease of \$4.7 million from its revised request.

While the parties were without the benefit of these updated positions, the recommendations of both Edison and DRA have consistently been well above the revenue requirement considered in the general rate case and could result in substantial increases to several customer groups. This circumstance is most significant to the Commission in light of our goal to avoid rate shock and ensure rate stability whenever possible. We believe that the granting of interim rate relief in this proceeding is an appropriate vehicle for realizing that goal since it will allow each ratepayer to adjust gradually to an anticipated significant increase in rates.

Additionally, Edison has asserted that granting interim rate relief is necessary for Edison to respond to the substantial increase in fuel and purchased power costs which it anticipates. As we have stated previously, such an allegation does not reflect the existence of a financial emergency, but it does serve to signal a need for the Commission to promptly respond to significantly increasing costs. In Southern California Edison Company v. Public Utilities Commission, 20 Cal. 3d 813 (1978), cited with approval by the court in TURN, the court found that the purpose of the ECAC clause "is to permit prompt rate adjustment to offset unusual changes in fuel costs". (Id., at p. 819.) In that case, the court also concluded that such prompt rate adjustments could occur in advance of hearings and could be made subject to refund.

We therefore find that the combination of these factors justifies an interim rate increase in this proceeding. In sum, these factors include the significant increase requested by Edison and recommended by DRA over that only recently granted in Edison's general rate case, the substantial increases in fuel costs anticipated by Edison and DRA, the necessary delay in the commencement of the proceeding to consider all related issues, and the need to avoid rate shock for all customer groups.

Our finding of the need for interim relief in this proceeding, however, is only the first step in granting such an

increase. We must also consider the type or level of interim relief to be granted and the manner in which that interim relief will be implemented.

As we stated in the decision before the court in TURN, it is our intent in granting any interim increase to avoid prejudgment of disputed issues if possible. The two most significant issues in dispute which would be affected by an interim rate increase in this proceeding are the size of the revenue increase and the manner in which that revenue will be allocated to customer classes.

We believe that both issues can be addressed in this decision in a manner so that neither issue will be prejudged. We note that § 454.5 accords the Commission great latitude in granting interim rate increases up to 80% of the requested level. As correctly pointed out by DRA, however, the Commission is not required to grant an increase of 80% of the request. Rather, the Commission has the discretion to grant an increase based on any percentage of the requested amount as long as it does not exceed a maximum of 80% of that request.

In determining the appropriate level of interim relief, the Commission is concerned, like many of the parties, that the adopted interim increase not exceed the revenue requirement likely to be approved in the final forecast phase decision. We must, therefore, consider the requested relief to date and the impact of the revenue increase on each customer class.

Under these circumstances, we find it appropriate to grant a rate increase for all customer classes to a level no greater than the lowest percentage increase for any customer group, other than streetlighting, recommended under either Edison's or DRA's proposed revenue allocations. Originally, the lowest figure was reflected in DRA's forecast report based on a recommended revenue allocation of a one-third/two-thirds weighted average of EPMC and SAPC. This allocation table is contained on page 6-3 of

DRA's forecast evaluation report and is based on DRA's originally recommended revenue requirement of \$382.5 million.

According to this table, the revenue increase to Edison's large power class as a whole reflected the lowest increase in rates to a customer group, other than streetlighting, with a percentage increase of 4.9%. For the subtransmission group within the large power class, the level of rate increase proposed was 3.8%. In DRA's supplemental testimony, these percentages changed, based on a revised revenue requirement recommendation of \$402.5 million, to 4.7% for the large power class as a whole and 3.0% for the subtransmission group within that class.

In order to achieve our goal of not prejudging issues in dispute in this proceeding and not adopting an interim increase in excess of the final adopted revenue requirement, we find that a system average percentage increase over present rates of 3.7% is a reasonable level of interim relief in this proceeding. This level of increase results in an overall increase in revenues for Edison of \$200 million, slightly less than 50% of DRA's currently recommended revenue requirement. When allocated on an SAPC basis to all customer classes, each class, with the exception of streetlighting, will receive a percentage increase of 3.7%. This revenue allocation will result in a 1.9% increase to streetlighting customers.

The adopted revenue requirement and revenue allocation are reflected in the following table:

SOUTHERN CALIFORNIA EDISON COMPANY
REVENUE ALLOCATION BASED ON SYSTEM AVERAGE PERCENTAGE CHANGE (SAPC) /1
FOR ADOPTED INTERIM REVENUE INCREASE OF \$200 MILLION
EFFECTIVE JUNE 1, 1988

CUSTOMER GROUP	SALES 2/ (GWH)	PRESENT RATE REV /3 (000's)	TOTAL MC REVS 4/ (000's)	FULL EPMC (000's)	(%) INC.	SAPC (000's)	SAPC WITH FACILITIES (000's)	(%) INC.	AVERAGE RATE
DOMESTIC	20,162	1,726,317	1,611,300	2,020,545	17	1,789,719	1,790,213	3.7	0.089
SM/MED POWER									
GS-1	4,187	434,915	363,200	455,336	5	451,017	451,017	3.7	0.108
GS-2	18,084	1,560,592	1,225,500	1,536,425	(2)	1,618,326	1,618,369	3.7	0.089
LARGE POWER									
TOU-8:2ND	6,756	540,725	416,900	522,658	(3)	560,745	560,745	3.7	0.083
TOU-8:PRI	10,413	746,462	558,700	700,430	(6)	774,099	774,099	3.7	0.074
TOU-8:SUB	3,189	185,051	133,200	166,990	(10)	191,902	191,902	3.7	0.060
AGRICULTURE									
PA-1	1,731	145,836	117,200	146,932	1	151,234	151,235	3.7	0.087
PA-2	342	26,201	22,400	28,173	8	27,077	27,168	3.7	0.079
STREETLIGHTING	475	70,321	20,000	58,929	(16)	37,816	71,671	1.9	0.151
TOTAL	65,338	5,436,420	4,468,400	5,636,418	4	5,601,934	5,636,418	3.7	0.086

1/ Although facilities charges and optional TOU meter charges have been excluded from the revenue allocation process, these amounts have been added to the revenue figures in this table in order to obtain the correct percentage increases and average rate calculations. SAPC revenue allocation is shown with and without facilities charges.

2/ Sales figures reflect ECAC sales estimates, and have not been adjusted for employee discounts.

3/ Present rate revenues include facilities charges for ECAC period per SCE general rate case D.87-12-066.

4/ Based on Marginal Costs from SCE general rate case D.87-12-066. Marginal cost revenues have been updated for ECAC forecast sales, demand and customers.

We note that many parties object to an SAPC revenue allocation as being at odds with the Commission's stated goal of moving toward an EPMC revenue allocation for Edison. We agree with these parties that the Commission in D.87-12-066 did in fact adopt a phase-in of an EPMC revenue allocation and indicated that illustrations of both SAPC and phased-in EPMC revenue allocations could be considered in this proceeding. At the time we issued D.87-12-066, however, we did not consider nor anticipate the need for interim rate relief in Edison's ECAC in 1988.

We therefore do not believe, given the need to craft an interim decision which is fair to both ratepayers and participants in this proceeding, that we have been foreclosed from adopting an SAPC revenue allocation for the adopted interim increase. We find that not only will our approach create the least likelihood of prejudging issues to be presented in this proceeding, but will also substantially avoid any "yo-yo" effect in rates as suggested by CLECA.

We also note that we have previously determined that the SAPC revenue allocation is to be considered, along with a phased-in EPMC approach, in the forecast phase of this proceeding.

(D.87-12-066, at p. 264; D.88-04-026, at p. 9.) The use of an SAPC revenue allocation in this interim order, however, is not intended to predetermine the issue of revenue allocation in this proceeding nor preclude the evidentiary showings permitted under D.87-12-066 and D.88-04-026. Based on the level of interim rate relief approved in this decision, adoption of a further phase-in of an EPMC revenue allocation following this interim rate order should create no analogous results in the final rates.

With respect to the impact of this interim increase on Edison's AER, we concur with DRA and Edison that, instead of approving an AER for Edison on an interim basis, the AER should be temporarily suspended and the increased revenues considered as 100% ECAC-related expenses included in the ECAC balancing account. In

reaching this decision, we are again guided by the previously cited Commission and judicial decisions. In those decisions, the approved interim rate increases related to costs reflected in balancing accounts under which the Commission could lawfully authorize and easily administer refunds, if necessary.

Further, the court has found in those cases involving interim rate adjustments related to a utility's ECAC that a change in the rates prior to hearings would be "retroactive in effect," but not "retroactive ratemaking." (Southern Cal. Edison Co. v. Public Utilities Com., 20 Cal. 3d at 830.) In Southern California Edison, the court found it significant that the periodic adjustments in Edison's rates brought about by operation of the fuel clause contained "no element of profit whatever." (Id., at p. 818.)

While the court had the utility's return on invested capital in mind in making that statement, we note that certain similarities exist between a utility's AER and its rate of return. In this regard both are fixed rates, not subject to balancing account treatment, which directly impact the profits realized by the utility's shareholders.

In this regard, the AER was designed to provide utility management a direct stake in its fuel management decisions and an incentive to reduce its fuel and purchased power expenses. The application of the AER therefore results in the shareholder benefiting if actual fuel and purchased power expenses are less than forecast and losing if actual expenses are greater than forecast. In restoring Edison's AER, the Commission specifically emphasized the benefits of the AER mechanism as a management incentive. (D.87-11-013, at p. 14.)

Given the nature of the AER and the court's pronouncements, we believe that the implementation or subsequent adjustment of an interim AER and the subsequent adjustment of the AER in future rates could create the potential for retroactive

ratemaking. Because our adopted approach in authorizing this interim rate increase addresses most of the concerns expressed by the parties, we find it unnecessary to risk engaging in retroactive ratemaking by adopting an interim AER. Our decision to increase rates based on 100% ECAC-related expenses is also consistent with established judicial and regulatory precedent with respect to interim rate increases related to ECAC. Additionally, by temporarily suspending the AER, we will not have prejudged the issue of the appropriate level of the final adopted AER.

We wish, however, to make clear that the suspension of the AER is indeed temporary. For the benefit of DGS, our temporary suspension of the AER is based on our need to follow established legal precedent and in no way reflects any change in our findings in D.87-11-013 supporting the restoration of this rate. We therefore notice all parties to this proceeding that the issue of the status of the AER is not subject to litigation in this proceeding and that an AER will be established for Edison in the final forecast phase decision in this proceeding.

Finally, we address the issue of rate design. In D.87-12-066 in Edison's most recent general rate case, we considered two proposals for adjusting the various rate components in the event of revenue requirement changes occurring between general rate cases. Edison proposed to hold demand and customer charges constant between general rate cases and make all adjustments in the energy charges. In contrast, DRA proposed to increase demand and customer charges toward their EPMC relationships for revenue requirement increases, but to hold them constant for decreases. After careful consideration of both proposals, we adopted DRA's proposal as a means of furthering the goal of achieving cost based rates. (D.87-12-066, at pp. 379-381.)

In D.88-04-026, modifying D.87-12-066, we found that Edison's ECAC was not "the appropriate forum for considering rate design issues." We then reiterated our finding that rate design between general rate cases would be based on increasing demand and customer charges toward their EPMC relationships for revenue requirement increases and maintaining those relationships for revenue decreases. (D.88-04-026, at pp. 8-9.)

Despite these decisions, Edison has taken the position both in its ECAC filing and its comments that any revenue change occurring in this proceeding should be allocated entirely to energy charges. In response to Edison's position, DRA states in its forecast report that "[t]his form of rate design is in defiance of the Commission's...D.87-12-066." (DRA Forecast Report, at p. 5-1.) DRA also asserts that "any delay in moving demand and customer charges toward their EPMC level will result in more difficult transitions later." (Id., at pp. 5-1 - 5-2.)

We find, like DRA, that Edison's comments and position in this proceeding are clearly at odds with the findings of our two recent decisions. In contrast, we find DRA's rate design approach, when coupled with its recommended one-third EPMC/two-thirds SAPC revenue allocation, to be consistent with our orders as that approach increases demand, customer, and energy charges for each rate class by the same percentage as the revenue requirement increase for that class.

We reject, however, Edison's attempt to relitigate the issue of rate design in this proceeding. Despite what has been done "traditionally" in ECAC proceedings, the Commission has specifically directed the rate design approach to be used between Edison's most recent and its next general rate case. There is no "prejudgment" of this issue involved in adopting a rate design for this interim decision since our prior orders make clear that rate design is in fact not an issue at all in this proceeding.

Edison has apparently finally recognized this circumstance as it has now filed a petition to modify D.87-12-066 and D.88-04-026. On April 29, 1988, Edison filed its petition for modification requesting that "it be given the opportunity in ECAC Application No. 88-02-016 to present evidence why it is appropriate, for this ECAC proceeding, to spread the revenue increase to energy rate charges only, and to not increase customer and demand rate charges." (Edison Petition, at p. 2.) Edison states in its petition that "[i]n the context of the entire rate case decision, Edison considers this to be a minor modification appropriate for consideration as a Petition for Modification." (Id.)

On May 6, 1988, CLECA responded to Edison's petition. Despite CLECA's comments supporting Edison's proposed rate design related to the interim increase in this proceeding, in its response CLECA asks the Commission to reject Edison's petition for modification.

Specifically, CLECA challenges Edison's request on the basis that Edison is asking not for a "minor modification," but a reversal of an aspect of a rate design determination made in the general rate case. CLECA observes that Edison should have filed a timely petition for rehearing or reconsideration and not included this issue in a third petition for modification nearly four months after issuance of the general rate case decision. On this ground alone, CLECA argues that Edison's petition is untimely and should be rejected. CLECA, however, also seeks rejection of Edison's petition on the grounds that the issue was thoroughly litigated and conclusively decided in the general rate case.

While Edison's petition is before the Commission in the general rate case, we believe that some comment on that petition is appropriate here as the relief which Edison seeks in that petition directly impacts this ECAC proceeding. As stated previously, our decisions have made clear the approach which is to be used for rate

design between Edison's general rate case, and as such no issue currently exists to be litigated in this proceeding. We also concur with CLECA that Edison's request is not a minor modification of the rate case decision, but is in fact an effort to relitigate an issue that has been fully addressed in two decisions.

We, like CLECA, are also greatly concerned with the tardiness of Edison's requested relief. Obviously, with hearings to commence on the forecast phase of this proceeding on May 23, 1988, the Commission is without an opportunity to issue a decision on Edison's petition prior to the hearings. We note that Edison has been well aware of this schedule since it was adopted on March 2, 1988.

While the merits of Edison's petition will be examined and a resulting decision will be issued in the general rate case proceeding, we find that any action taken in that order can have no effect on the forecast phase of this proceeding. To do so, would disadvantage all parties and could in turn delay our goal of issuing a final decision in the forecast phase of this proceeding by September, 1988.

Finally, we note that Edison and other parties have suggested that it would be premature to adjust demand charges before new summer seasonal rates have been implemented. The impact of the rate design adopted in Edison's general rate case coupled with a June 1 revision date for Edison's ECAC is a circumstance of which Edison should have been aware at the time of the issuance of D.87-12-066 or at least as of the filing of the present application in February. Nevertheless, neither Edison nor any other party brought this matter to the Commission's attention until it was too late for the Commission to act, if necessary, prior to hearings in this proceeding.

Additionally, if a final order in this proceeding had in fact been issued on the June 1 revision date, the impact of our adopted rate design on summer rates would have been far greater

than the partial rate increase authorized for that date by this decision. Given the level and manner of rate increase authorized by this decision, we find that any rate shock to these customers has been minimized.

Under these circumstances, we find that, for purposes of this ECAC, we will follow the dictates of D.87-12-066 and D.88-04-026 which prescribe the rate design procedures to be followed in this proceeding. For purposes of the interim rate increase, the CEPC rate design proposed by DRA in its forecast report will be adopted.

Findings of Fact

1. On February 11, 1988, Edison filed this request for an electric rate increase of \$627.9 million based on increases in revenue requirement related to Edison's ECAC, AER, and ERAM.
2. As part of its application, Edison asked that the Commission consider granting it interim relief by its June 1, 1988, ECAC revision date.
3. In support of its request for interim relief, Edison contended in its application that it was unlikely that the Commission would be able to issue a final decision in this proceeding by June 1 based on the existence of new issues in the ECAC proceeding and the complexity and delays associated with ECAC proceedings.
4. Based on an update of its ECAC filing, Edison revised its rate increase request on March 28, 1988, lowering the requested level from \$627.9 million to \$484.1 million.
5. In its forecast report filed on April 5, 1988, DRA recommended a revenue increase for Edison of \$382.5 million.
6. Pursuant to an ALJ ruling, this matter was bifurcated into two phases, a forecast phase and a reasonableness phase, with comments on the need for and implementation of an interim rate increase due April 20, 1988, and hearings in the forecast phase commencing on May 23, 1988.

7. Based on updated energy resource mix and fuel cost information, DRA submitted supplemental testimony on May 13, 1988, increasing its recommended revenue level from \$382.5 million to \$402.5 million for the forecast period.

8. On May 14, 1988, Edison further lowered its rate increase request by \$4.7 million to yield a requested revenue requirement of \$479.4 million.

9. The Commission has carefully reviewed all of the comments on the issue of an interim rate increase in this proceeding.

10. With one exception, these comments address the need for and level and implementation of an interim increase, as well as the revenue allocation and rate design to be applied to that increase.

11. The one party not addressing the issue of an interim increase was WMA, the merits of whose comments must therefore be considered in this decision separately from those of the other parties.

12. In both its comments and prepared testimony in this proceeding, WMA asks that the Commission modify the diversity adjustment applied to rates charged under Edison's DMS-2 schedule based on any change in residential rates adopted in this proceeding.

13. The relief requested by WMA in this proceeding has already been sought by WMA by a petition for rehearing of D.87-12-066 in Edison's most recent general rate case.

14. By D.88-04-028, the Commission denied WMA's petition for rehearing, and by D.88-04-026, an order modifying D.87-12-066, the Commission made clear that Edison's 1988 ECAC would not be a forum for the relitigation of the rate design adopted in D.87-12-066.

15. Based on D.87-12-067, D.88-40-026, and D.88-04-028, it is inappropriate for the Commission in this proceeding to consider any modification of the diversity adjustment adopted in D.87-12-047 nor any part of WMA's comments or its prepared testimony which attempt to raise this issue.

16. Public Utilities Code § 454.5 and current Commission and judicial precedent provide ample support for interim relief being granted in an ECAC proceeding up to 80% of the revenue requested.

17. § 454.5 clearly permits and contemplates the Commission granting interim rate relief in ECAC proceedings in advance of hearing.

18. The California Supreme Court has also recognized the Commission's authority to grant interim rate increases subject to refund when those increases are reflected in a balancing account and sufficient justification for the interim relief has been presented.

19. In granting the interim increase recently upheld by the court, the Commission stated its intent not to prejudge the reasonableness of any of the utility's investment costs or to disadvantage either the ratepayers or the utility.

20. The preceding statutory, regulatory, and judicial authority are clearly applicable to this proceeding.

21. The standards set by this precedent have been met in this proceeding, and interim relief for Edison is therefore appropriate.

22. The existence and combination of the following factors in this proceeding justify the Commission granting an interim rate increase: the significant rate increase requested in this proceeding by Edison and recommended by DRA over the rate relief only recently granted in Edison's general rate case; the substantial increases in fuel costs anticipated by Edison and DRA; the necessary delay in the commencement of this proceeding to consider new, time-consuming issues recently added to the ECAC; and the need to avoid rate shock for all customer groups.

23. None of the preceding factors suggest the existence of a financial emergency, but all relate to preserving the financial integrity of the utility, minimizing costs incurred by ratepayers, and ensuring rate stability for Edison's customers.

24. Given the lack of financial emergency, the Commission will not grant interim rate relief in this or any other case without a showing of significant factors at least as compelling as those discussed above.

25. It is to the advantage of the utility and its ratepayers that all issues to be heard in the ECAC are clearly and fully presented to the Commission.

26. The revenue requested by Edison and the increase recommended, even with subsequent updating, have consistently been well above the revenue requirement considered in the general rate case and, if either were adopted, a substantial increase in rates could result to several customer groups.

27. It is the Commission's goal to avoid rate shock and ensure rate stability whenever possible.

28. The granting of interim rate relief in this proceeding is an appropriate vehicle for attaining rate stability and will allow each ratepayer to adjust gradually to an anticipated significant increase in rates.

29. In granting interim rate relief in this proceeding, the Commission must not only consider the need for that relief, but also the level of interim relief to be granted and the manner in which that relief will be implemented.

30. Consistent with past Commission practice, it is the Commission's intention in this proceeding in granting interim relief to Edison to avoid prejudgment of disputed issues if possible.

31. The two most significant disputed issues in this proceeding which would be affected by an interim rate increase are the size of the revenue increase and the manner in which that revenue will be allocated to customer classes.

32. Under § 454.5, the Commission has the discretion, but is not required, to grant an interim revenue increase up to 80% of the requested level.

33. In determining the appropriate level of interim relief to be granted in this proceeding without prejudging any issues in dispute, the Commission must consider (1) an interim increase which will not exceed the revenue requirement likely to be approved in the final forecast phase decision, (2) changes to the requested relief to date, and (3) the impact of the revenue increase on each customer class.

34. In keeping with the preceding findings, it is appropriate for the Commission to grant a rate increase for all customers classes no greater than the lowest percentage increase for any customer group, other than streetlighting, recommended under either Edison's or DRA's proposed revenue allocations.

35. Based on DRA's supplemental testimony filed in this proceeding, the lowest percentage change under either DRA's or Edison's recommended revenue allocation is a 4.7% increase for the large power class recommended by DRA based on DRA's one-third EPMC/two-thirds SAPC revenue allocation methodology and a revenue requirement of \$402.5 million.

36. In order to achieve the Commission's goal of not prejudging disputed issues in this proceeding and not adopting an interim increase in excess of the final increase likely to be approved, a system average percentage increase over present rates of 3.7% is a reasonable level of interim relief.

37. A 3.7% increase over present rates for each customer class, other than streetlighting (a 1.9% increase), results in an overall increase in revenues for Edison of \$200 million, slightly less than 50% of DRA's currently recommended revenue requirement.

38. When the Commission concluded in Edison's general rate case that both SAPC and phased-in EPMC revenue allocations could be considered in this proceeding, the Commission did not consider nor anticipate the need for interim rate relief in Edison's 1988 ECAC.

39. The decisions in the Edison's recent general rate case do not foreclose the adoption of an SAPC revenue allocation for the interim increase authorized in this order.

40. Adoption of an SAPC revenue allocation in this interim order is necessary in order to craft an interim decision which is fair to both ratepayers and participants in this proceeding, to avoid prejudgment of disputed issues, and to prevent any "yo-yo" effect in rates.

41. The use of an SAPC revenue allocation in this interim order is not intended to predetermine the issue of revenue allocation in this proceeding nor preclude the evidentiary showings permitted under D.87-12-066 and D.88-04-026.

42. In light of current judicial precedent on the issue of retroactive ratemaking, it is reasonable to temporarily suspend Edison's AER and to consider the increased revenues approved by this decision as 100% ECAC-related expenses included in the ECAC balancing account.

43. The court has found that interim rate adjustments related to a utility's ECAC would be "retroactive in effect" and not "retroactive ratemaking" when adjustments in those rates are caused by operation of the fuel clause.

44. While the court has examined the impact of profit on retroactive ratemaking limited to the utility's return on invested capital, similarities exist between a utility's AER and its rate of return.

45. Both the utility's rate of return and its AER are fixed rates, not subject to balancing account treatment, which directly impact the profits realized by the utility's shareholders.

46. Given the nature of the AER and the court's pronouncements, the implementation or adjustment of an interim AER in future rates raises the potential for retroactive ratemaking.

47. Because the Commission's adopted approach in authorizing this interim rate increase addresses most of the concerns expressed by the parties, it is unnecessary to risk engaging in retroactive ratemaking by adopting an interim AER.

48. An interim increase in rates based on 100% ECAC-related expenses is consistent with established judicial and regulatory precedent.

49. By temporarily suspending Edison's AER, the issue of the appropriate level of the final adopted AER will not have been prejudged.

50. The temporary suspension of the AER resulting from this decision is based on the Commission's need to follow established legal precedent and in no way reflects any change in the Commission's findings in D.87-11-013 restoring this rate for Edison.

51. The status of the AER is not subject to litigation in this proceeding, and an AER will be established for Edison in the final forecast phase decision in this proceeding.

52. In Edison's most recent general rate case, the Commission found in D.87-12-066 and D.88-04-026 that the rate design between general rate cases would be based on increasing demand and customer charges toward their EPMC relationships for revenue requirement increases and maintaining those relationships for revenue decreases.

53. In D.88-04-026, the Commission also found Edison's ECAC was not the appropriate forum for considering rate design issues.

54. Edison's recommendation in its comments and testimony to base the rate design used for the interim and final rate increases in this proceeding on adjustments to energy charges only is inconsistent with the Commission's D.87-12-066 and D.88-04-026.

55. Edison's attempt to relitigate the issue of rate design in this proceeding is inappropriate and should be rejected.

56. No prejudgment of the issue of rate design will result from this interim order since D.87-12-066 and D.88-04-026 make clear that rate design is in fact not an issue in this proceeding.

57. Edison has recently petitioned for modification of D.87-12-066 and D.88-04-026 seeking to modify those orders to permit the spread of revenue increases to energy rate charges only.

58. While Edison's petition for modification is before the Commission in the general rate case, it is reasonable to comment on that petition in this proceeding because the relief which Edison seeks in its petition directly affects its ECAC application.

59. Edison's request in its petition is not a "minor" modification of that rate case orders, but is in fact an effort to relitigate an issue that has been fully addressed in those decisions.

60. Edison's petition has been filed too late for the Commission to issue a decision on that petition prior to hearings commencing in this proceeding.

61. In fairness to all parties, any action taken in the general rate case regarding the merits of Edison's petition can have no effect on the forecast phase of this proceeding.

62. The impact of the rate design adopted in Edison's general rate case coupled with a June 1 revision date for Edison's ECAC is a circumstance of which Edison should have been aware at the time of the issuance of D.87-12-066 or at least at the time Edison filed the instant application in February, 1988.

63. If a final order in this proceeding had in fact been issued on the June 1 revision date, the impact of our adopted rate design on summer rates would have been far greater than the partial rate increase authorized for that date by this decision.

64. Given the level and manner of rate increase authorized by this decision, any rate shock to Edison's customers caused by our following the rate design ordered in D.87-12-066 and D.88-04-026 should be minimized.

65. Absent any Commission decision to the contrary, it is reasonable to follow the dictates of D.87-12-066 and D.88-04-026 which prescribe the rate design procedures to be followed in this proceeding.

66. The CEPC rate design proposed by DRA in its forecast report is consistent with D.87-12-066 and D.88-04-026 and is the appropriate basis for the rate design to be used for the interim rate increase ordered by this decision.

Conclusions of Law

1. The comments and prepared testimony submitted by WMA which address the modification of the diversity adjustment adopted in D.87-12-047 in A.86-12-047 should not be considered in this proceeding.

2. Based on current statutory, judicial, and regulatory authority and the existence of several factors justifying interim relief, Edison should be granted an interim rate increase by this decision.

3. In granting interim relief in this proceeding, the Commission should consider not only the need for that relief, but also the level of interim relief to be granted and the manner in which that relief should be implemented.

4. The Commission should grant interim relief in a manner which avoids prejudgment of disputed issues, does not exceed the revenue requirement likely to be approved in the final forecast phase decision, and considers changes to the requested relief to date and the impact of the revenue increase on each customer class.

5. The Commission should grant a rate increase for all customer classes no greater than the lowest percentage increase for any customer group, other than streetlighting, recommended under either Edison's or DRA's proposed revenue allocation.

6. In keeping with the preceding goals, a system average percentage increase over present rates of 3.7% for all customer classes other than streetlighting (a 1.9% increase) with a resulting revenue increase of \$200 million should be adopted for Edison in this decision.

7. The use of an SAPC revenue allocation in this interim order should not be considered as predetermining the issue of revenue allocation in this proceeding nor precluding the evidentiary showings permitted under D.87-12-066 and D.88-04-026.

8. Edison's AER should be temporarily suspended and the increased revenues approved by this decision should be considered as 100% ECAC-related expenses included in the ECAC balancing account.

9. The status of Edison's AER should not be the subject of litigation in this proceeding, and an AER should be established for Edison in the final forecast phase decision in this proceeding.

10. Edison's recommended rate design in this proceeding, based on reflecting revenue increases in energy charges only, should be rejected as inconsistent with D.87-12-066 and D.88-04-026 in Edison's general rate case application, A.86-12-047.

11. Any action taken in Edison's general rate case addressing Edison's recently filed petition for modification of D.87-12-066 and D.88-04-026 relative to rate design should have no effect on the forecast phase of this proceeding.

12. Edison should have been aware of the impact of the rate design adopted in Edison's general rate case coupled with a June 1 revision date for Edison's ECAC as of the issuance of D.87-12-066 or at least at the time Edison filed the instant application in February, 1988.

13. Absent a Commission decision to the contrary, the dictates of D.87-12-066 and D.88-04-026 which prescribe the rate design procedures for this proceeding should be followed.

14. The CEPC rate design proposed by DRA in its forecast report is consistent with D.87-12-066 and D.88-04-026 and should be adopted as the rate design to be used for the interim rate increase adopted in this decision.

INTERIM ORDER

IT IS ORDERED that:

1. On an interim basis, Southern California Edison Company (Edison) is authorized to increase its Energy Cost Adjustment Clause (ECAC) revenue requirement by \$200 million resulting in a 3.7% system average percentage increase over present rates to all customer classes, except streetlighting for which a 1.9% increase is authorized. This revenue increase shall be subject to refund and shall be attributable 100% to expenses related to Edison's Energy Cost Adjustment Clause (ECAC) and included in Edison's ECAC balancing account.

2. On or after the effective date of this order, and at least 3 days prior to their effective date, Edison shall file revised tariff schedules for electric rates reflecting the revenue increase authorized by this decision. The revised tariff schedules shall become effective on or after June 1, 1988, and shall comply with General Order 96-A. The revised tariffs shall apply to service rendered on or after their effective date.

3. Edison's Annual Energy Rate (AER) shall be suspended temporarily pending a final order in the forecast phase of this proceeding.

4. The status of Edison's AER shall not be the subject of litigation in this proceeding, and an AER shall be established for Edison in the final forecast phase decision in this proceeding.

5. The use of an SAPC revenue allocation in this interim order shall not be considered as predetermining the issue of revenue allocation in this proceeding nor precluding the evidentiary showings permitted under D.87-12-066 and D.88-04-026.

6. Edison's recommended rate design in this proceeding, based on reflecting revenue increases in energy charges only, shall not be considered in this proceeding nor shall any Commission decision on Edison's petition for modification of D.87-12-066 and 88-04-026 on this issue effect the scope of the issues to be heard in the forecast phase of this application.

7. Absent a Commission decision to the contrary, the dictates of D.87-12-066 and D.88-04-026 which prescribe the rate design procedures for this proceeding shall be followed.

8. The Class Equal Percent Change rate design proposed by the Division of Ratepayer Advocates (DRA) in its forecast report is consistent with D.87-12-066 and D.88-04-026 and shall be adopted as the rate design to be used for the interim rate increase approved in this decision.

9. The comments and prepared testimony submitted by Western Mobilehome Association which address the modification of the diversity adjustment adopted in D.87-12-047 in A.86-12-047 shall not be considered in this proceeding consistent with D.87-12-066, D.88-04-026, and D.88-04-028 in Edison's most recent general rate case, A.86-12-047.

This order is effective today.

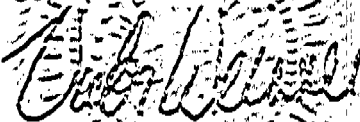
Dated May 25, 1988, at San Francisco, California.

STANLEY W. HULETT
President

DONALD VIAL
FREDERICK R. DUDA
G. MITCHELL WILK
JOHN B. O'HANIAN

Commissioners

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


Victor Weissert, Executive Director

reasonableness of its nonstandard contracts with qualifying facilities for a three-year period beginning December 1, 1984.

As part of its application, Edison also requested that its proposed AER be implemented on an interim basis on June 1, 1988, and remain in effect until a final Commission decision for the forecast period. The AER is a fixed rate, a percentage of the ECAC, which is not subject to balancing account treatment and which makes a portion of fuel and purchased power costs recoverable on a fixed, forecast basis. After being reduced and ultimately suspended in 1986, an AER for Edison was recently restored to its original 10% level in Edison's 1987 ECAC proceeding.

(D.87-11-013.) Based on its originally requested relief, Edison's proposed AER revenue increase for its 1988 ECAC was \$55.5 million.

In support of its requested interim relief, Edison asserted in its application that the complexity of past ECAC proceedings, the recent addition of new issues in this proceeding, and a history of delays in ECAC proceedings made it unlikely that a Commission decision adopting annual ECAC rates would be issued by Edison's June 1, 1988, revision date. The new issues to which Edison referred stemmed from recent Commission decisions in Edison's most general rate case (A.86-12-047) and the generic standard offer proceeding (A.82-02-044, et al.). Primarily, these issues relate to the determination of factors used in the calculation of prices paid by the utility to qualifying facilities.

Because of these circumstances, it was Edison's opinion that adoption on an interim basis of Edison's proposed AER would mitigate the risks to ratepayers and shareholders from either understatement or overstatement of AER revenues during periods of changing energy prices. (A.88-02-016, at p. 25-26.) Edison further stated that variations in AER revenue, resulting from the difference between Edison's proposed interim AER and the final AER adopted in this proceeding, could be reflected in subsequent adjustments to the ECAC balancing account and future ECAC rates.

marginal cost structure and rate design adopted in D.87-12-066." (D.88-04-026, Finding 22, at p. 19.)

We note that D.88-04-026 and D.88-04-026 were issued prior to the due date in this proceeding for comments on interim rate relief and prepared testimony on rate design and revenue allocation. Nevertheless, WMA persists in both its comments and prepared testimony to attempt to raise the issue of modification of the diversity adjustment in this proceeding. In both documents, WMA has included a computer model embodying its methodology for calculating the diversity adjustment.

We reject WMA's renewed attempt to litigate the issue of the calculation or modification of the diversity adjustment in this proceeding. D.87-12-066, D.88-04-026, and D.88-04-028 make clear that the issue of the diversity adjustment is not to be considered in this proceeding.

We also remind WMA that its diversity estimate was adopted in D.87-12-066 largely because it "closely mirrored" the level of adjustment adopted for Pacific Gas and Electric Company. Neither of the methodologies presented by Edison or WMA, however, were found to provide an appropriate basis for calculating the diversity adjustment in the future. We therefore did not approve WMA's methodology based on a random sample of 29 units nor did we order any adjustment of WMA's estimate based on that methodology prior to the next general rate case. Instead, the goal of D.87-12-066 had been to adopt the best available adjustment factor (WMA's) and to direct Edison for its next general rate case to provide an adjustment based on a more appropriate methodology. That methodology, also referenced in D.88-04-028, is to be based on the usage patterns of mobilehome parks which Edison individually meters.

We therefore find that WMA's comments and proposed testimony in this proceeding are beyond the scope of this proceeding. We suggest that WMA devote its efforts to developing a

utility and ratepayers alike that all issues to be heard in the ECAC are clearly and fully presented to the Commission.

In addition to this delay is the magnitude of Edison's requested rate relief. The size of this increase is made more significant when compared to the de minimus revenue changes resulting from Edison's most recent general rate case. In D.87-12-066 in that proceeding, Edison was directed to reduce its base revenues by \$48.5 million or 0.9% and increase its major additions adjustment clause (MAAC) by \$73.7 million or 1.4 percent. Even with these insubstantial overall revenue changes, the typical Edison residential customer experienced a 4.4% rate increase due to the movement toward an EPMC revenue allocation.

These revenue changes obviously pale next to either Edison's original request (\$627.9 million) or even its second revised request (\$479.4 million) in the instant ECAC application. Should the Commission continue the movement of Edison's rates toward an EPMC revenue allocation in this proceeding, a revenue increase of this size could result in a substantial rate increase to not only residential, but commercial and industrial customers as well.

We note that several parties assert that the revenue requirement for Edison in this proceeding is quickly decreasing. These statements were based on DRA's recommended revenue requirement of \$382.5 million and DRA's assertion that further reductions might result following its analysis of Edison's updated filing. As it has turned out, however, DRA's supplemental testimony submitted on May 13, 1988, now includes an increase in DRA's recommended revenue requirement to \$402.5 million based on the most recent data available on weather and fuel cost conditions affecting the forecast period. Edison's additional prepared testimony yielded only a minor decrease of \$4.7 million from its revised request.

We note that many parties object to an SAPC revenue allocation as being at odds with the Commission's stated goal of moving toward an EPMC revenue allocation for Edison. We agree with these parties that the Commission in D.87-12-066 did in fact adopt a phase-in of an EPMC revenue allocation and indicated that illustrations of both SAPC and phased-in EPMC revenue allocations could be considered in this proceeding. At the time of we issued D.87-12-066, however, we did not consider nor anticipate the need for interim rate relief in Edison's ECAC in 1988.

We therefore do not believe, given the need to craft an interim decision which is fair to both ratepayers and participants in this proceeding, that we have been foreclosed from adopting an SAPC revenue allocation for the adopted interim increase. We find that not only will our approach create the least likelihood of prejudging issues to be presented in this proceeding, but will also substantially avoid any "yo-yo" effect in rates as suggested by CLECA.

We also note that we have previously determined that the SAPC revenue allocation is to be considered, along with a phased-in EPMC approach, in the forecast phase of this proceeding. (D.87-12-066, at p. 764; D.88-04-026, at p. 9.) The use of an SAPC revenue allocation in this interim order, however, is not intended to predetermine the issue of revenue allocation in this proceeding nor preclude the evidentiary showings permitted under D.87-12-066 and D.88-04-026. Based on the level of interim rate relief approved in this decision, adoption of a further phase-in of an EPMC revenue allocation following this interim rate order should create no analogous results in the final rates.

With respect to the impact of this interim increase on Edison's AER, we concur with DRA and Edison that, instead of approving an AER for Edison on an interim basis, the AER should be temporarily suspended and the increased revenues considered as 100% ECAC-related expenses included in the ECAC balancing account. In

reaching this decision, we are again guided by the previously cited Commission and judicial decisions. In those decisions, the approved interim rate increases related to costs reflected in balancing accounts under which the Commission could lawfully authorize and easily administer refunds, if necessary.

Further, the court has found in those cases involving interim rate adjustments related to a utility's ECAC that a change in the rates prior to hearings would be "retroactive in effect," but not "retroactive ratemaking." (Southern Cal. Edison Co. v. Public Utilities Com., 20 Cal. 3d at 830.) In Southern California Edison, the court found it significant that the periodic adjustments in Edison's rates brought about by operation of the fuel clause contained "no element of profit whatever." (Id., at p. 818.)

While the court had the utility's return on invested capital in mind in making that statement, we note that certain similarities exist between a utility's AER and its rate of return. In this regard both are fixed rates, not subject to balancing account treatment, which directly impact the profits realized by the utility's shareholders.

In this regard, the AER was designed to provide utility management a direct stake in its fuel management decisions and an incentive to reduce its fuel and purchased power expenses. The application of the AER therefore results in the shareholder benefiting if actual fuel and purchased power expenses are less than forecast and losing if actual expenses are greater than forecast. In restoring Edison's AER, the Commission specifically emphasized the benefits of the AER mechanism as a management incentive. (D.87-11-013, at p. 14.)

Given the nature of the AER and the court's pronouncements, we believe that the implementation or subsequent adjustment of an interim AER and the subsequent adjustment of the AER in future rates could create

the potential for retroactive ratemaking. Because our adopted approach in authorizing this interim rate increase addresses most of the concerns expressed by the parties, we find it unnecessary to risk engaging in retroactive ratemaking by adopting an interim AER. Our decision to increase rates based on 100% ECAC-related expenses is also consistent with established judicial and regulatory precedent with respect to interim rate increases related to ECAC. Additionally, by temporarily suspending the AER, we will not have prejudged the issue of the appropriate level of the final adopted AER.

We wish, however, to make clear that the suspension of the AER is indeed temporary. For the benefit of DGS, our temporary suspension of the AER is based on our need to follow established legal precedent and in no way reflects any change in our findings in D.87-11-013 supporting the restoration of this rate. We therefore notice all parties to this proceeding that the issue of the status of the AER is not subject to litigation in this proceeding and that an AER will be established for Edison in the final forecast phase decision in this proceeding.

Finally, we address the issue of rate design. In D.87-12-066 in Edison's most recent general rate case, we considered two proposals for adjusting the various rate components in the event of revenue requirement changes occurring between general rate cases. Edison proposed to hold demand and customer charges constant between general rate cases and make all adjustments in the energy charges. In contrast, DRA proposed to increase demand and customer charges toward their EPMC relationships for revenue requirement increases, but to hold them constant for decreases. After careful consideration of both proposals, we adopted DRA's proposal as a means of furthering the goal of achieving cost based rates. (D.87-12-066, at pp. 379-381.)

16. Public Utilities Code § 454.5 and current Commission and judicial precedent provide ample support for interim relief being granted in an ECAC proceeding up to 80% of the revenue requested.

17. § 454.5 clearly permits and contemplates the Commission granting interim rate relief in ECAC proceedings in advance of hearing.

18. The California Supreme Court has also recognized the Commission's authority to grant interim rate increases subject to refund when those increases are reflected in a balancing account and sufficient justification for the interim relief has been presented.

19. deleted.

20. In granting the interim increase recently upheld by the court, the Commission stated its intent not to prejudge the reasonableness of any of the utility's investment costs or to disadvantage either the ratepayers or the utility.

21. The preceding statutory, regulatory, and judicial authority are clearly applicable to this proceeding.

22. The standards set by this precedent have been met in this proceeding, and interim relief for Edison is therefore appropriate.

23. The existence and combination of the following factors in this proceeding justify the Commission granting an interim rate increase: the significant rate increase requested in this proceeding by Edison and recommended by DRA over the rate relief only recently granted in Edison's general rate case; the substantial increases in fuel costs anticipated by Edison and DRA; the necessary delay in the commencement of this proceeding to consider new, time-consuming issues recently added to the ECAC; and the need to avoid rate shock for all customer groups.

24. None of the preceding factors suggest the existence of a financial emergency, but all relate to preserving the financial integrity of the utility, minimizing costs incurred by ratepayers, and ensuring rate stability for Edison's customers.

25. Given the lack of financial emergency, the Commission will not grant interim rate relief in this or any other case without a showing of significant factors at least as compelling as those discussed above.

26. It is to the advantage of the utility and its ratepayers that all issues to be heard in the ECAC are clearly and fully presented to the Commission.

27. The revenue requested by Edison and the increase recommended, even with subsequent updating, have consistently been well above the revenue requirement considered in the general rate case and, if either were adopted, a substantial increase in rates could result to several customer groups.

28. It is the Commission's goal to avoid rate shock and ensure rate stability whenever possible.

29. The granting of interim rate relief in this proceeding is an appropriate vehicle for attaining rate stability and will allow each ratepayer to adjust gradually to an anticipated significant increase in rates.

30. In granting interim rate relief in this proceeding, the Commission must not only consider the need for that relief, but also the level of interim relief to be granted and the manner in which that relief will be implemented.

31. Consistent with past Commission practice, it is the Commission's intention in this proceeding in granting interim relief to Edison to avoid prejudgment of disputed issues if possible.

32. The two most significant disputed issues in this proceeding which would be affected by an interim rate increase are the size of the revenue increase and the manner in which that

A.88-02-016 ALJ/SSM/rsr

revenue will be allocated to customer classes.

33. Under § 454.5, the Commission has the discretion, but is not required, to grant an interim revenue increase up to 80% of the requested level.

34. In determining the appropriate level of interim relief to be granted in this proceeding without prejudging any issues in dispute, the Commission must consider (1) an interim increase which will not exceed the revenue requirement likely to be approved in the final forecast phase decision, (2) changes to the requested relief to date, and (3) the impact of the revenue increase on each customer class.

35. In keeping with the preceding findings, it is appropriate for the Commission to grant a rate increase for all customers classes no greater than the lowest percentage increase for any customer group, other than streetlighting, recommended under either Edison's or DRA's proposed revenue allocations.

36. Based on DRA's supplemental testimony filed in this proceeding, the lowest percentage change under either DRA's or Edison's recommended revenue allocation is a 4.7% increase for the large power class recommended by DRA based on DRA's one-third EPMC/two-thirds SAPC revenue allocation methodology and a revenue requirement of \$402.5 million.

37. In order to achieve the Commission's goal of not prejudging disputed issues in this proceeding and not adopting an interim increase in excess of the final increase likely to be approved, a system average percentage increase over present rates of 3.7% is a reasonable level of interim relief.

38. A 3.7% increase over present rates for each customer class, other than streetlighting (a 1.9% increase), results in an overall increase in revenues for Edison of \$200 million, slightly less than 50% of DRA's currently recommended revenue requirement.

39. When the Commission concluded in Edison's general rate case that both SAPC and phased-in EPMC revenue allocations could be considered in this proceeding, the Commission did not consider nor anticipate the need for interim rate relief in Edison's 1988 ECAC.

40. The decisions in the Edison's recent general rate case do not foreclose the adoption of an SAPC revenue allocation for the interim increase authorized in this order.

41. Adoption of an SAPC revenue allocation in this interim order is necessary in order to craft an interim decision which is fair to both ratepayers and participants in this proceeding, to avoid prejudgment of disputed issues, and to prevent any "yo-yo" effect in rates.

42. The use of an SAPC revenue allocation in this interim order is not intended to predetermine the issue of revenue allocation in this proceeding nor preclude the evidentiary showings permitted under D.87-12-066 and D.88-04-026.

43. In light of current judicial precedent on the issue of retroactive ratemaking, it is reasonable to temporarily suspend Edison's AER and to consider the increased revenues approved by this decision as 100% ECAC-related expenses included in the ECAC balancing account.

44. The court has found that interim rate adjustments related to a utility's ECAC would be "retroactive in effect" and not "retroactive ratemaking" when adjustments in those rates are caused by operation of the fuel clause.

45. While the court has examined the impact of profit on retroactive ratemaking limited to the utility's return on invested capital, similarities exist between a utility's AER and its rate of return.

46. Both the utility's rate of return and its AER are fixed rates, not subject to balancing account treatment, which directly impact the profits realized by the utility's shareholders.

47. Given the nature of the AER and the court's pronouncements, the implementation or adjustment of an interim AER in future rates raises the potential for retroactive ratemaking. ✓

48. Because the Commission's adopted approach in authorizing this interim rate increase addresses most of the concerns expressed by the parties, it is unnecessary to risk engaging in retroactive ratemaking by adopting an interim AER. ✓

49. An interim increase in rates based on 100% ECAC-related expenses is consistent with established judicial and regulatory precedent.

50. By temporarily suspending Edison's AER, the issue of the appropriate level of the final adopted AER will not have been prejudged.

51. The temporary suspension of the AER resulting from this decision is based on the Commission's need to follow established legal precedent and in no way reflects any change in the Commission's findings in D.87-11-013 restoring this rate for Edison.

52. The status of the AER is not subject to litigation in this proceeding, and an AER will be established for Edison in the final forecast phase decision in this proceeding.

53. In Edison's most recent general rate case, the Commission found in D.87-12-066 and D.88-04-026 that the rate design between general rate cases would be based on increasing demand and customer charges toward their EPMC relationships for revenue requirement increases and maintaining those relationships for revenue decreases.

54. In D.88-04-026, the Commission also found Edison's ECAC was not the appropriate forum for considering rate design issues.

53. Edison's recommendation in its comments and testimony to base the rate design used for the interim and final rate increases in this proceeding on adjustments to energy charges only is inconsistent with the Commission's D.87-12-066 and D.88-04-026.

54. Edison's attempt to relitigate the issue of rate design in this proceeding is inappropriate and should be rejected.

55. No prejudgment of the issue of rate design will result from this interim order since D.87-12-066 and D.88-04-026 make clear that rate design is in fact not an issue in this proceeding.

56. Edison has recently petitioned for modification of D.87-12-066 and D.88-04-026 seeking to modify those orders to permit the spread of revenue increases to energy rate charges only.

57. While Edison's petition for modification is before the Commission in the general rate case, it is reasonable to comment on that petition in this proceeding because the relief which Edison seeks in its petition directly affects its ECAC application.

58. Edison's request in its petition is not a "minor" modification of that rate case orders, but is in fact an effort to relitigate an issue that has been fully addressed in those decisions.

59. Edison's petition has been filed too late for the Commission to issue a decision on that petition prior to hearings commencing in this proceeding.

60. In fairness to all parties, any action taken in the general rate case regarding the merits of Edison's petition can have no effect on the forecast phase of this proceeding.

61. The impact of the rate design adopted in Edison's general rate case coupled with a June 1 revision date for Edison's ECAC is a circumstance of which Edison should have been aware at the time of the issuance of D.87-12-066 or at least at the time Edison filed the instant application in February, 1988.

62. If a final order in this proceeding had in fact been issued on the June 1 revision date, the impact of our adopted rate design on summer rates would have been far greater than the partial rate increase authorized for that date by this decision.

63. Given the level and manner of rate increase authorized by this decision, any rate shock to Edison's customers caused by our following the rate design ordered in D.87-12-066 and D.88-04-026 should be minimized.

64. Absent any Commission decision to the contrary, it is reasonable to follow the dictates of D.87-12-066 and D.88-04-026 which prescribe the rate design procedures to be followed in this proceeding.

65. The CEPC rate design proposed by DRA in its forecast report is consistent with D.87-12-066 and D.88-04-026 and is the appropriate basis for the rate design to be used for the interim rate increase ordered by this decision.

Conclusions of Law

1. The comments and prepared testimony submitted by WMA which address the modification of the diversity adjustment adopted in D.87-12-047 in A.86-12-047 should not be considered in this proceeding.

2. Based on current statutory, judicial, and regulatory authority and the existence of several factors justifying interim relief, Edison should be granted an interim rate increase by this decision.

3. In granting interim relief in this proceeding, the Commission should consider not only the need for that relief, but also the level of interim relief to be granted and the manner in which that relief should be implemented.

4. The Commission should grant interim relief in a manner which avoids prejudgment of disputed issues, does not exceed the revenue requirement likely to be approved in the final forecast phase decision, and considers changes to the requested relief to date and the impact of the revenue increase on each customer class.

5. The Commission should grant a rate increase for all customer classes no greater than the lowest percentage increase for any customer group, other than streetlighting, recommended under either Edison's or DRA's proposed revenue allocation.

6. In keeping with the preceding goals, a system average percentage increase over present rates of 3.7% for all customer classes other than streetlighting (a 1.9% increase) with a resulting revenue increase of \$200 million should be adopted for Edison in this decision.

7. The use of an SAPC revenue allocation in this interim order should not be considered as predetermining the issue of revenue allocation in this proceeding nor precluding the evidentiary showings permitted under D.87-12-066 and D.88-04-026.

8. Based on current legal precedent on the issue of retroactive ratemaking, Edison's AER should be temporarily suspended and the increased revenues approved by this decision should be considered as 100% ECAC-related expenses included in the ECAC balancing account.

9. The status of Edison's AER should not be the subject of litigation in this proceeding, and an AER should be established for Edison in the final forecast phase decision in this proceeding.

10. Edison's recommended rate design in this proceeding, based on reflecting revenue increases in energy charges only, should be rejected as inconsistent with D.87-12-066 and D.88-04-026 in Edison's general rate case application, A.86-12-047.

11. Any action taken in Edison's general rate case addressing Edison's recently filed petition for modification of D.87-12-066 and D.88-04-026 relative to rate design should have no effect on the forecast phase of this proceeding.

12. Edison should have been aware of the impact of the rate design adopted in Edison's general rate case coupled with a June 1 revision date for Edison's ECAC as of the issuance of D.87-12-066 or at least at the time Edison filed the instant application in February, 1988.

13. Absent a Commission decision to the contrary, the dictates of D.87-12-066 and D.88-04-026 which prescribe the rate design procedures for this proceeding should be followed.

14. The CEPC rate design proposed by DRA in its forecast report is consistent with D.87-12-066 and D.88-04-026 and should be adopted as the rate design to be used for the interim rate increase adopted in this decision.

INTERIM ORDER

IT IS ORDERED that:

1. On an interim basis, Southern California Edison Company (Edison) is authorized to increase its Energy Cost Adjustment Clause (ECAC) revenue requirement by \$200 million resulting in a 3.7% system average percentage increase over present rates to all customer classes, except streetlighting for which a 1.9% increase is authorized. This revenue increase shall be subject to refund and shall be attributable 100% to expenses related to Edison's Energy Cost Adjustment Clause (ECAC) and included in Edison's ECAC balancing account.

2. On or after the effective date of this order, and at least 3 days prior to their effective date, Edison shall file revised tariff schedules for electric rates reflecting the revenue increase authorized by this decision. The revised tariff schedules shall become effective on or after June 1, 1988, and shall comply with General Order 96-A. The revised tariffs shall apply to service rendered on or after their effective date.

3. Edison's Annual Energy Rate (AER) shall be suspended temporarily pending a final order in the forecast phase of this proceeding.

4. The status of Edison's AER shall not be the subject of litigation in this proceeding, and an AER shall be established for Edison in the final forecast phase decision in this proceeding.

5. The use of an SAPC revenue allocation in this interim order shall not be considered as predetermining the issue of revenue allocation in this proceeding nor precluding the evidentiary showings permitted under D.87-12-066 and D.88-04-026.

6. Edison's recommended rate design in this proceeding, based on reflecting revenue increases in energy charges only, shall not be considered in this proceeding nor shall any Commission decision on Edison's petition for modification of D.87-12-066 and 88-04-026 on this issue effect the scope of the issues to be heard in the forecast phase of this application.

7. Absent a Commission decision to the contrary, the dictates of D.87-12-066 and D.88-04-026 which prescribe the rate design procedures for this proceeding shall be followed.

8. The Class Equal Percent Change rate design proposed by the Division of Ratepayer Advocates (DRA) in its forecast report is consistent with D.87-12-066 and D.88-04-026 and shall be adopted as the rate design to be used for the interim rate increase approved in this decision.

9. The comments and prepared testimony submitted by Western Mobilehome Association which address the modification of the diversity adjustment adopted in D.87-12-047 in A.86-12-047 shall not be considered in this proceeding consistent with D.87-12-066, D.88-04-026, and D.88-04-028 in Edison's most recent general rate case, A.86-12-047.

This order is effective today.

Dated MAY 25 1988, at San Francisco, California.

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