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Decision 90-07-056 July 18, 1990

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 Revise Its Energy Cost Adjustment )  
Billing Factors, Its Annual Energy )  
Rate, and Its Electric Revenue )  
Adjustment Billing Factor Effective )  
January 1, 1990; (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 )  
Capacity Cost for Avoided Cost )  
Pricing; and (4) Review of the )  
Reasonableness of Edison's Operations )  
During the Period From December 1, )  
1987, Through March 31, 1989. )

ORIGINAL

Application 89-05-064  
(Petition for Modification  
filed March 16, 1990)

OPINION

Southern California Edison Company (Edison) requests that the Commission reconsider and amend Decision (D.) 90-01-048 pursuant to Public Utilities Code Section 1708 to suspend the Annual Energy Rate (AER) for the Forecast Period<sup>1</sup> of Edison's Energy Cost Adjustment Clause Revision (ECAC), Application (A.) 89-05-064. Edison alleges that the basis for the request is that material, unforeseen events occurred or became known to Edison subsequent to the close of hearings on October 5, 1989 which will significantly increase Edison's fuel and purchased power expense

<sup>1</sup> The "Forecast Period" or "1990 Forecast Period," is January 1, 1990 through December 31, 1990.

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for the Forecast Period above the level adopted by the Commission in D.90-01-048, and that these events and changes in expense are

outside the control of Edison's management.

The events causing Edison to make this request are alleged as follows:

1. The gas curtailment by Southern California Gas Company (SoCal) which began November 1, 1989 and has continued through March 16, 1990 with an expectation of continued curtailment through May 31, 1990. D.90-01-048, issued January 24, 1990, adopted a forecast reflecting essentially no oil burn during the Forecast Period although the SoCal ACAP decision (D.90-01-015) issued January 9, 1990 recognized that significant gas curtailment would occur. Edison estimates that it will incur an increase in ECAC-related expense of \$31.3 million above that adopted in D.90-01-048 because it is unable to obtain as much gas as necessary; and

2. The Commission's SoCal ACAP decision (D.90-01-015) increased gas transportation costs paid by Edison to SoCal, increasing Edison's ECAC-related expenses approximately \$23 million above that adopted in D.90-01-048. In addition, the gas Storage Banking decision, D.89-12-046, authorized SoCal to reflect in rates paid by UEG's; the costs associated with the injection and storage of gas to be used during the southern California smog season. This additional ECAC-related expense of approximately \$1.6 million was not reflected in D.90-01-048. Moreover, on February 16, 1990, El Paso Natural Gas Company (El Paso) filed to increase its Order 500 Throughput Surcharge from \$0.1836 per dth to \$0.3157 per dth effective March 1, 1990 which Edison expects will

and increase the commodity cost of gas at the California/Arizona border. Edison argues that the purpose of the AER is to provide the utility an effective incentive to control its fuel and purchased power expenses. However, when fuel prices change rapidly or when such changes in costs are outside management's control, the Commission's policy has been to suspend the AER. Because the change in forecast revenue requirement due to gas curtailment and gas price increases implemented in other Commission decisions was not reflected in D.90-01-048, and are outside management's ability to control, Edison's shareholders should not be at risk and the AER should be suspended effective April 1, 1990. Edison expects to incur a cumulative AER overcollection from February 1, 1990 to the date of suspension and, therefore, proposes to credit the ECAC Balancing Account with an amount equal to the AER overcollection of Edison's recorded fuel and purchased power expenses.

In addition to the request for suspension of the AER, Edison expressed concern with the AER procedure in general. It believes that the AER procedure is flawed and should be terminated permanently. Edison recommends that if the Commission believes that an incentive in addition to the existing Nuclear Unit Incentive Procedure and the Annual Review of Reasonableness is necessary, it should consider investigating a new approach that would satisfy the original intent of the AER.

Edison's petition is opposed by the Commission's Division of Ratepayer Advocates (DRA), TURN, the California Cogeneration Council, and the Industrial Users (a group of large industrial customers).

TURN urges rejection of Edison's request. It points out that in D.90-01-048 the Commission adopted a revenue requirement and AER based on a stipulation entered into by Edison. In adopting the stipulation, the Commission concluded that it was reasonable

overall, but explicitly declined to adopt the assumptions and methodology underlying the stipulation. TURN argues that Edison cannot now repudiate its own stipulation by alleging that certain assumptions, which the Commission never adopted, have changed. TURN argues that the increased oil burn was foreseeable. Not only was it foreseeable but Edison requested an increased fuel oil inventory level in its ECAC which was vigorously opposed by DRA but which was adopted by the Commission. Additionally, TURN notes, in September 1989, Edison filed its opening brief in the SoCal ACAP in which Edison agreed that there would be substantial UEG curtailment. In regard to asserted increases in transportation charges, TURN contends that Edison's calculation is fundamentally irrelevant because the ECAC decision never adopted transportation rates nor did the parties to the joint recommendation endorse DRA's assumptions. In any case, TURN argues that the rates adopted in the ACAP were entirely foreseeable before and during the ECAC hearings. In regard to the average volumetric transportation charge, TURN points out that the rate adopted in the SoCal ACAP was almost identical to the rate in SoCal's application and therefore was entirely foreseeable.

TURN asserts that the proposed El Paso gas commodity cost increase is purely speculative. There are protests to this rate at FERC and there is no way to predict whether FERC will allow all or any part of the increase.

Finally, in regard to Edison's request for a general reconsideration of the AER, TURN recommends that this is an issue that is not minor and would require participation by all those who are interested in AER in general which reach far beyond those who are parties to this proceeding. Therefore, it is beyond the scope of a petition for modification.

DRA supports all of the arguments of TURN and has elaborated on the justification for maintaining the AER in place. DRA argues that the AER is designed to provide for precisely the

situation about which Edison is complaining. The risks imposed by the AER are intended to act as an incentive for the company to manage its own affairs. Some external factors will always be beyond management's control precisely because they are external. This is an element of business risk that is unavoidable. In the past, DRA says, the Commission has suspended the AER when the price of fuel fluctuated wildly, a situation not present in this case; or when there was delay in processing an ECAC, a situation not present here. In both of those situations, the Commission when suspending the AER reiterated its intention to reinstitute the AER as such time as conditions were more stable.

The California Cogeneration Council echoes the remarks of the other opponents and adds that it believes that Edison's statements regarding the effect of fuel switching are inaccurate. The Industrial Users also endorse the position of TURN and point out that the problems cited by Edison are symptomatic of the normal operation of the AER mechanism and that Edison has misstated the thrust of the evidence presented in the original ECAC proceeding in terms of what was reasonably foreseeable within the framework of that proceeding.

#### Discussion

The record in this petition for modification is not extensive enough to allow a conclusion to be drawn on Edison's petition for modification. Edison contends that this AER period is characterized by events beyond the control of management which unfairly penalize Edison. Edison's portrayal of events which will affect the company this year differs from the portrayal given by DRA, TURN, and the CCC. The comments of those opposed to the petition have raised substantial issues of fact which can only be determined upon a record after hearing.

A hearing in this matter requires time-consuming discovery, briefing, and recommended decision activities which would delay a final decision until late 1990 and, of course, by

that time, the entire issue would be moot. We will avoid this outcome by ordering the applicant, Edison, to start tracking their AER costs as of the effective date of this order. Edison shall set in place a memorandum account. This account will track the differences between 10% of the actual energy costs and the actual AER billed revenue in a memorandum account. In addition, Edison has proposed that the memorandum account also include amounts booked to the AER account prior to this decision, dating from February, 1990. We approve this request for the following reason:

The AER rate is an average rate, designed to balance overcollections in winter with undercollections in the summer. If Edison begins tracking expenses in mid-year, this balance will be disturbed. If Edison's petition is granted, Edison would keep overcollections in the early part of the year yet ask to pass through additional expenses in the latter part of the year. We believe that such an arrangement would be inequitable, and grant their petition that the balances from February to the effective date of this order be included in the memorandum account.

If Edison wishes to recover any AER costs in excess of authorized AER revenues the company shall file an application at the time of Edison's next ECAC application. At that time the Commission will commence hearings to determine whether any or all amounts booked to the memorandum account during 1990 shall or shall not be subject to additional recovery.

In addition, we agree with TURN that Edison's request for reconsideration of the AER is not minor, and is beyond the scope of this proceeding. This petition for modification of the ECAC is not the appropriate forum to determine whether to continue or replace the AER. The appropriate forum for deciding whether to replace the AER with a different incentive mechanism is an OII. We direct

Commission staff to prepare an OII which will explore the effectiveness of the AER and alternative incentive mechanisms for electric utilities.

Findings of Fact

1. Those opposed to the petition have raised issues of fact which cannot be resolved without a hearing.

2. Hearings are time-consuming and may render the issues in this petition for modification moot.

3. The establishment of a tracking account will allow Edison time to present its case in hearings and still recover or return any balances which the applicant proves were not reasonably anticipated by management or subject to management control.

4. It is equitable to add the AER balance accumulated from February 1, 1990 to the effective date of this order to the memorandum account established as of the date of this order.

5. A decision to continue or replace the AER is of interest to parties who did not participate in this proceeding.

6. A petition for modification of the Edison ECAC is not the appropriate forum to decide a generic policy issue such as the continuation or replacement of the AER for electric utilities.

7. The issuance of an OII will provide a forum for all interested parties to participate in discussing whether to continue the AER for electric utilities or replace it with another incentive mechanism.

Conclusion of Law

Edison's petition is denied, except to the extent granted above.

Commission staff to prepare an **ORDER** regarding the effectiveness of the AER and alternative incentive mechanisms for Edison.

**IT IS ORDERED that:**

1. Edison shall establish a memorandum account which will track the differences between 10% of the actual energy costs and the actual AER billed revenue in a memorandum account. Pursuant to its offer, Edison shall reflect in the memorandum account the cumulative AER overcollection balance, (if any) incurred by Edison from February 1, 1990 to the effective date of this order.

Edison shall file an application at the same time that it files its next ECAC application to recover any balance in this memorandum account. Once this application is filed, the Commission will review in a further proceeding whether Edison should recover any or all amounts booked to the memorandum account.

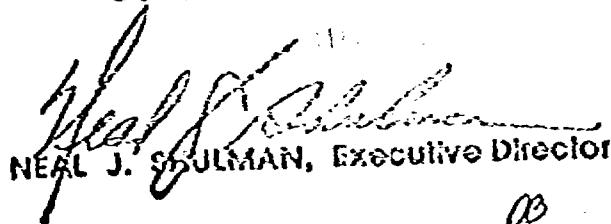
4. The Commission directs staff to prepare an Order Instituting an Investigation to review the effectiveness of the AER and other incentive mechanisms and consider appropriate replacements.

This order is effective today.

Dated July 18, 1990, at San Francisco, California.

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

I CERTIFY THAT THIS DECISION  
WAS APPROVED BY THE  
COMMISSIONERS TODAY

  
NEAL J. SHULMAN, Executive Director