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ORIGINAL

Decision _____

BEFORE THE PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

In the Matter of the Application of)
 SOUTHERN CALIFORNIA EDISON COMPANY)
 for authority to increase rates)
 charged by it for electric service.)

Application 61138
 (Filed December 18, 1981)

INTERIM OPINION

On January 22, 1982 Southern California Edison Company (Edison) filed a petition with the Commission seeking an order which would grant its request that the base-rate cost of service of its Santa Catalina Island (Catalina) electric operations be included in Edison's mainland retail base-rate cost of service for purposes of Application (A.) 61138.

The following requests contained in A.61138 are relevant to our consideration of this petition:

1. That the base-rate cost of service for Catalina electric customers^{1/} be included in Edison's mainland retail base-rate cost of service.
2. That the base-rate cost of service, including Catalina, adopted by the Commission in its decision in A.61138 reflect changes required by the Economic Recovery Tax Act of 1981 (Act). The Act requires normalization of the benefits of the Accelerated Cost Recovery System (ACRS) and Investment Tax Credit (ITC) if a public utility is to be allowed these tax benefits. Under the transition rule of the Act, a

^{1/} This petition pertains to Catalina electric service only. The water and gas public utility service provided by Edison on Catalina are not subjects of the petition.

decision affecting cost of service and including the effect of normalization of ACRS and ITC must be issued on or before January 1, 1983.

3. That the Commission make its order effective no later than January 1, 1983.

Historically, Edison has treated the Catalina base-rate cost of service separately from its mainland retail base rates. In Decision (D.) 93129 dated June 2, 1981, we authorized Edison to merge the Catalina energy cost adjustment clause (ECAC) procedure with the mainland ECAC procedure. In A.61138 Edison requests the merging of Catalina base rates with mainland retail base rates "to avoid an exorbitant differential between Catalina and mainland rates."

Under the provisions of the Regulatory Lag Plan, we would issue a decision in A.61138 on or about December 18, 1982. Edison points out that if at that time we were to reject its request that the Catalina base-rate cost of service be included with the mainland retail base-rate cost of service, it could not file and receive a decision on a separate application to increase base rates for Catalina service prior to January 1, 1983, thus precluding tax benefits allowed by the transition rule of the Act. In addition, Edison contends that it would forgo a reasonable rate of return on Catalina operations for an extended period of time. For these reasons, Edison requests that we issue an interim decision as soon as possible, either granting or denying its request that the base-rate cost of service for Catalina customers be included with the mainland retail base-rate cost of service.

At present base rates for Catalina service, which average 5.6 cents per kilowatt-hour (¢/kWh), Edison estimates that base-rate

expenses excluding return in 1983 would exceed base-rate revenues by \$153,000. This would result in a negative rate of return on the Catalina rate base of approximately 0.8%. In 1984 at present rates, Edison estimates that base rate expenses excluding return would exceed base-rate revenues by \$420,000 and result in approximately a negative 16.5% rate of return.

Edison states that, if it were to request a separate Catalina base-rate increase which would be consistent with the request for mainland base-rate cost of service, the proposed increase in revenue requirement would amount to approximately \$1,075,000 in 1983, or an increase over present base-rate revenues of about 130%. Such an increase would result in an average level of base rates in 1983 of about 12.9¢/kWh. In 1984, according to Edison, there would be an additional base-rate revenue requirement of \$545,000, or a further increase of 28% over the proposed 1983 rate levels. This would result in an average level of base rates in 1984 of about 16.3¢/kWh. Under Edison's proposal that the Catalina base-rate cost of service be included in the mainland retail base-rate cost of service, the base-rate revenue increase for Catalina service would be approximately \$430,000 in 1983, or an increase over present base rates of about 52%. This would result in an average level of base rates in 1983 of about 8.5¢/kWh. There would be an additional base-rate revenue increase of \$85,000 in 1984, or a further 6% over the proposed 1983 rate levels. This would result in an average level of base rates in 1984 of about 9.2¢/kWh.

The petition contains the following table which compares Catalina base-rate revenues, rate of return, and average level of base rates for 1983 and 1984 under:

1. Present rates,
2. Rates proposed in A.61138, and
3. The rates that Edison states it would propose in a separate application.

Catalina Base-Rate Revenues, Rate of Return,
and Average Level of Base Rates in 1983 and 1984

	1983			1984		
	<u>Present Rates</u>	<u>A.61138 Proposed Rates</u>	<u>Separate Application Rates</u>	<u>Present Rates</u>	<u>A.61138 Proposed Rates</u>	<u>Separate Application Rates</u>
Base-Rate Revenue (\$000)	825	1255	1900	842	1387	2445
Rate of Return (%)	(5.82)	2.13 ^{2/}	13.98	(16.49)	(6.09) ^{2/}	14.12
Average Level of Base Rates (¢/kWh)	5.6	8.5	12.9	5.6	9.2	16.3

It is evident that if we were to authorize, by way of a separate application for the Catalina base-rate cost of service, a base-rate increase that would allow Edison an opportunity to earn the same rate of return on its Catalina rate base as it is requesting on its mainland rate base, Catalina customers would in fact experience an exorbitant increase in rates compared to mainland customers. Based on the average levels of base rates in the table above, the levels of base rates for Catalina would exceed those for a similar mix of mainland customers in 1983 by about 4.4¢/kWh, or 52%, and in 1984 by about 7.1¢/kWh, or 77%.

In the petition Edison points out that the benefits of the Act^{3/} could be lost for its Catalina operations.

^{2/} The rate of return requested in A.61138 is 13.98% in 1983 and 14.12% in 1984 on Edison's total retail operations, including Catalina.

^{3/} In D.93848 we recognized that the Act is applicable to California utilities subject to our jurisdiction.

The Act which was signed into law on August 13, 1981 contains a number of changes to the tax laws which are of particular importance to electric utilities. Among them are additions and changes to the Internal Revenue Code which (1) increase the allowable tax depreciation by incorporating shorter tax lives for certain utility property, (2) increase ITC available for shorter lived property, and (3) require normalization of the benefits of both ACRS and ITC.

Under Section 201 of the Act, ACRS applies to property placed in service after December 31, 1980. ACRS permits accelerated cost recovery of investments in public utility property by using generally substantially shorter tax lives than under the prior Asset Depreciation Range tax depreciation system. The Act also provides for changes in other Internal Revenue Code provisions which had allowed flow-through of a portion of the benefits of ITC. Immediate flow-through of ITC benefits is no longer an option available for any portion of the ITC. Unless the taxpayer uses the normalization method of accounting, public utility property will not be ACRS property and will not be eligible for ITC.

The Act provides for a transition period between December 31, 1980 and the effective date of the first rate decision issued with respect to such property, provided that the effective date of the rate decision is no later than January 1, 1983. Failure to meet the normalization requirements of the Act after the effective date of such a decision will result in the loss of the ACRS benefits and all or a portion of ITC.

In A.61138 Edison has requested, in accordance with the provisions of the Act, ACRS and ITC on its public utility property include its Catalina electric property. Edison states that unless it receives a decision from the Commission which would be effective on or before January 1, 1983 for its Catalina electric public utility

property, such property acquired or constructed between January 1, 1981 and the effective date of the decision would not be eligible for the benefits of ACRS and all or possibly a portion of ITC.

Edison contends that, if under the Regulatory Lag Plan, we were to issue in December 1982 a final decision in A.61138 rejecting its proposal for Catalina, there would not be sufficient time remaining for the Commission to process a separate application prior to January 1, 1983. Edison further contends that it would be forced to forgo a reasonable return on its Catalina electric operations as well as the tax benefits under the Act until we issued a decision on the separate Catalina rate increase application.

As we see it, the only recourse available to Edison if we were to deny this petition would be for Edison to file forthwith a separate application for a base-rate increase for Catalina service. This action would preserve Edison's opportunity to receive the benefits under the transition rule of the Act and afford it the opportunity to earn a reasonable rate of return on its Catalina facilities. This course of action, however, would create an unnecessary burden for Edison in preparing and presenting the application and for our staff which would be required to analyze and respond to the application. Approximately eight months would be required for us to conduct hearings, review the record, and issue a decision in a separate application. It appears, therefore, that the filing and processing of a separate application would be an undesirable alternative to the granting of this petition.

The relief sought by Edison in this petition is merely a determination that it be allowed to include the base-rate cost of service of its Catalina operations with its mainland retail base-rate cost of service. The delay that would be inherent in holding public hearings on this petition would jeopardize Edison's opportunity for

a timely rate decision on Catalina service and would unnecessarily burden Edison and this Commission by necessitating that the Catalina cost of service be considered twice.

Findings of Fact

1. In A.61138 Edison proposes, among other things, that the Catalina Island base rate cost of electric service be included with Edison's mainland retail base-rate cost of electric service.

2. In the ordinary course of events under our Regulatory Lag Plan, Edison would not receive a final decision in A.61138 until approximately December 18, 1982.

3. Edison would not have the opportunity after a final decision on A.61138 to file an application for a base-rate increase for Catalina Island electric service and receive a decision from the Commission prior to January 1, 1983.

4. Edison has requested normalization of income taxes under provisions of the Act for ratemaking purposes for its total California Public Utilities Commission jurisdictional base-rate cost of service, including its Catalina base-rate cost of electric service.

5. Edison's proposal that the Catalina base-rate cost of electric service be included with the mainland retail base-rate cost of service is reasonable and should be adopted by this Commission.

6. A public hearing in this petition is not necessary and would be unnecessarily time-consuming.

Conclusions of Law

1. The transition rule of the Act precludes the use of ACRS and the benefit of all or a portion of ITC for property placed in service after December 31, 1980 unless the Commission grants a decision which allows normalization of income taxes in the cost of service effective on or before January 1, 1983.

2. Edison's petition presents no issues requiring formal hearings; therefore, it should be granted on an ex parte basis.

3. The effective date of this interim order should be the date on which it is signed so that Edison may be afforded adequate time in which to formulate its showing in A.61138.

INTERIM ORDER

IT IS ORDERED that:

1. Southern California Edison Company (Edison) is authorized to include the Santa Catalina Island (Catalina) base-rate cost of electric service with its mainland retail base-rate cost of electric service in A.61138.

2. The base rates for electric service rendered on Catalina shall be determined in A.61138.

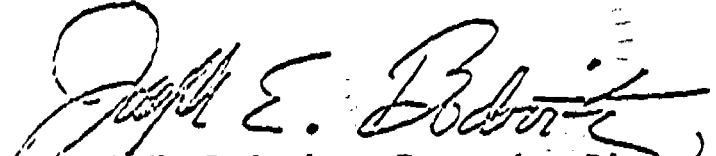
3. Edison shall notify forthwith by mail each of its Catalina electric customers that the Commission has authorized it to include the Catalina base-rate cost of electric service with its mainland retail base-rate cost of service, and that the Commission will set base rates for Catalina electric service in A.61138.

This order is effective today.

Dated MAR 16 1982, at San Francisco, California.

JOHN E. BRYSON
President
RICHARD D. GRAVELLE
LEONARD M. GRIMES, JR.
VICTOR CALVO
PRISCILLA C. CREW
Commissioners

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


Joseph E. Bodovitz, Executive Director