Decision 82 04 119 APR 28 1982

BEFORE THE PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

ORIGINAL

In the Matter of the Application of SOUTHERN CALIFORNIA EDISON COMPANY for Authority to Implement its Proposed Rate Stabilization Plan by Reducing its Energy Cost Adjustment Billing Factors, to Reduce its Annual Energy Rate, and to Maintain its presently-effective Catalina Energy Cost Balance Adjustment Billing Factor.

Application 82-03-04
(Filed March 1, 1982)

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Brobeck, Phleger & Harrison, by William H. Booth, Gordon E. Davis, and Richard C. Harper, Attorneys at Law, for California Manufacturers Association; Glen J. Sullivan and Allen R. Crown, Attorneys at Law, for California Farm Bureau Federation; Robert Spertus, Attorney at Law, for Toward Utility Rate Normalization; Lisa S. Trankely and Gregg Wheatland, Attorneys at Law, for California Energy Commission; and R. M. Loch, T. D. Clarke, and G. G. Hannah, Attorneys at Law, for Southern California Gas Company; interested parties.
Thomas P. Corr, Attorney at Law, Raymond A. Charvez, and Julian E. Ajello, for the Commission staff.

INTERIM OPINION

I. Summary

By this order we adopt an Energy Cost Adjustment Clause (ECAC) rate of 4.06¢/kWh and an Annual Energy Rate (AER) of .236¢/kWh. The combined result of our action is an annualized reduction of $719.43 million.

We decline to adopt a Rate Stabilization Plan (Plan) proposed by Southern California Edison Company (Edison). However, we set ECAC billing factors which should protect against additional fuel cost increases through the remainder of the year.

We remove the facilities charge component from the AER calculation since Edison's pending negotiation with Chevron U.S.A., Inc. (Chevron) indicates that substantial changes in the underlying contract will be made. ECAC recovery after a reasonableness showing is permitted as an alternative.

Last, we order disclosure of certain contracts to an intervenor who has demonstrated a compelling need for the documents that outweighs Edison's allegations of harm likely to result from disclosure.

II. Background

By Application (A.) 82-03-04, Edison requests approval of reduced ECAC billing factors and a new AER. In addition, A.82-03-04 includes Edison's report on the reasonableness of fuel and purchased power expenses incurred in 1981. Finally, Edison proposes implementation of a Rate Stabilization Plan (Plan), under which imminent ECAC rate reductions are postponed to offset the impact of future ECAC rate increases and major additions to Edison's rate base.

The scheduled revision date for A.82-03-04 is May 1. Because of the complex issues raised in this application, the staff was unable to complete its entire review within the time allowed. Since Edison's filing indicates that a substantial rate reduction is appropriate, hearings were held on March 15 - March 17, 1982, so that reduced rates may take effect on the May 1 revision date. Further hearings will be held in May to consider Edison's reasonableness report as well as any other issues that were not fully addressed in the March hearings.

The first phase of this proceeding was submitted subject to the receipt of briefs due March 29, 1982. Edison, the staff, California Farm Bureau Federation (Farm Bureau), and Toward Utility Rate Normalization (TURN) filed briefs. Edison also has filed an Interlocutory Appeal to the Commission to overturn two evidentiary rulings made by the administrative law judge (ALJ). Last, the California Energy Commission (CEC) has tendered an outline of conservation testimony and evidence that it proposes to introduce. Several parties have filed comments on the CEC's outline.

In Edison's last ECAC proceeding, A.61027, we authorized an annualized increase of $545 million, for the January-April forecast period. We relied upon Edison's projection that an even greater increase of $626 million was necessary. (See Decision (D.) 93895, p. 7; A.61027, Exh. 4.) At that time, Edison predicted an ECAC undercollection even if the full amount of rate relief was granted. In the current application, Edison estimates that an ECAC overcollection of $103 million on an annualized basis will exist on May 1. This unexpected overcollection as well as a change in the energy mix for the forecast period justify an ECAC decrease of $870 million again on an annualized basis. Also, Edison proposes to decrease its AER by $3.8 million to reflect its test year forecast of fuel expenses, facilities charges, and oil inventory carrying costs. Thus, the total rate decrease could be $874 million.

III. Issues

In this phase, we will address the following issues:

1. Should Edison's Plan be adopted to stabilize ECAC and other adjustment rates through 1983?

2. What is the appropriate AER for the test year?
3. What are the appropriate ECAC billing factors for the forecast period?
4. How should the revenue reduction be allocated between lifeline and nonlifeline residential rates?
5. Did the ALJ properly order disclosure of fuel price projections and contracts to TURN?
6. Should this ECAC proceeding encompass the conservation issues raised by CEC?

IV. Rate Stabilization

Under established ECAC procedures, Edison notes that a substantial decrease of $870 million is possible. As an alternative, Edison proposes a Plan which calls for a decrease of just $250 million. The Plan is intended to mitigate the impact of seasonal rate changes on customers' bills. Under the Plan, authorized increases in all adjustment rates will be offset whenever possible with equal decreases in ECAC rates so that the total rate levels charged to customers remain unchanged. For example, the impact of entering Edison's share of the San Onofre Nuclear Generating Station No. 2 (SONGS 2) into rate base, estimated as a rate increase of $362 million on an annualized basis, could be offset with a simultaneous ECAC reduction of $362 million.

Edison's Plan is intended to keep the level of total adjustment rates, i.e. ECAC rates, SONGS 2 addition, other offset proceedings, constant through 1983. A general rate increase will occur on or around January 1, 1983 which will not be offset with an ECAC decrease. Under the Plan, the ECAC balancing account would remain overcollected until the end of 1983.

Edison's main argument in support of the Plan is that customers want stable rates for long periods of time. Edison witness E. Myers stated that:

> "...we are extremely concerned about the state of mind of our customers and how confused they are about all of the different regulations, and to the extent that we could get a firm number fixed in their mind for a given period of time, we think it would be very helpful to the company as well as to the ratepayer." (Tr., pp. 39-40.)

Witness Myers also testified that although large overcollections should accrue in the ECAC account if the Plan is adopted, the company will not receive any cash flow benefits since interest also will accrue on the ECAC balance. He further asserted that the company is financially indifferent to prolonged ECAC overcollections or undercollections of as much as $250 million.

Apart from the staff, all interested parties opposed Edison's Plan. Industrial customers represented by the California Manufacturers Association (CMA), agricultural customers represented by Farm Bureau, and residential customers represented by TURN uniformly oppose Edison's Plan for rate stabilization. CMA recognizes some advantages to stable rates but prefers an immediate and full reduction in current high rates. Farm Bureau joins CMA in calling for the entire $870 million ECAC reduction and points out that Edison's Plan hurts "summer-seasonal" users such as farmers and desert air-conditioning customers by keeping summer electric rates artificially high. TURN contends that residential customers are against high rates rather than "roller-coaster" or fluctuating rates. TURN maintains that the advantages of an immediate rate decrease outweigh the alleged problem of fluctuating rates.

The staff witness abstained on this matter, saying only that approval or disapproval of the Plan is a policy decision to be made by the Commission. Staff counsel recommends that if the Plan is adopted, it should include a "trigger" mechanism to adjust ECAC rates only if the undercollected or overcollected balance exceeds $250 million.

After consideration of the above arguments, we find no support for the Plan. Edison's claim that its customers desire and will benefit from the proposal is contradicted by industrial, agricultural, and residential customers. Edison itself denies the existence of any financial benefits from the Plan, leaving us with no justification for the Plan from either the utility or the customer perspective. Accordingly, we decline to adopt Edison's proposed Plan.

Although we do not adopt Edison's Plan, we recognize that seasonal ECAC rate changes caused by swings in the energy mix confuse those ratepayers who are not knowledgeable about the shifting availability of fuel and purchased power from Edison's suppliers. Residential, commercial, and industrial customers are discouraged from planning energy budgets or undertaking long-term investments in conservation measures as they perceive that electric rates are fluctuating up or down every four months. For this reason, we believe that some steps toward moderating short-term rate fluctuations should be taken at this time.

Edison's Plan was based upon forecasts of energy mix and expense through the end of 1983, a forecast period of 20 months. Those long-range estimates are, like most economic projections, necessarily speculative. While we have more confidence in the accuracy of shorter term predictions, even short term projections have often been far from accurate. Edison ratepayers are today receiving the benefits of an unusual combination of circumstances leading to a substantial rate reduction. These circumstances include excess oil supplies on the world market, declining oil prices, plentiful supplies of natural gas, and plentiful availability of purchased power, particularly hydro power. If we were to assume that this combination of circumstances were to continue, rates could be reduced more than we have done in this order. We do not think this is realistic. Prudent regulation requires that we not assume the most optimistic set of circumstances will continue to prevail.

We are also moved by equitable considerations to bring more stability to rates. Customers whose usage is greater in winter than in summer bore an unusually severe burden this past winter. Rates were increased substantially in January to cover financial attrition and to reduce undercollections in the ECAC account. These increases, coupled with a cold winter, led to bills being much higher this year than last. Were we to take the most optimistic view and reduce rates the maximum amount possible, these customers would receive none of the benefit. Even worse, these same customers would again bear the brunt of the greater rate increase likely to result next winter. By somewhat stabilizing rates at this time, Edison's high winter usage customers can receive some of the current benefits while at the same time leaving rates for high summer usage customers only slightly above last year's levels. We consider this a just and reasonable distribution of benefits to all of Edison's customers.

Evidence introduced in this proceeding includes a forecast of Edison's energy mix and expense for May 1, 1982 through December 31, 1982. (Exhibit 8.) In addition, the record contains alternate computations which are intended to levelize ECAC rates through the end of 1982. (Exhibit 14.) We will use this information and attempt to stabilize ECAC rates for the remainder of the year.

The intent of existing ECAC procedures has been to match revenues with expenses as closely as possible. Since fuel oil is Edison's most expensive energy source, the amount of fuel oil burned has become the most important factor in ECAC proceedings. If Edison can obtain more natural gas, purchased power, or hydro, it will burn less oil and ECAC rates should drop. On the other hand if less gas, hydro, or purcahsed power is available to Edison, then it must burn more oil and ECAC rates must rise. Consequently, ECAC proceedings are currently characterized as much by the seasonal energy mix as by fuel price fluctuations. We will ask our staff and the utilities to consider how seasonal ECAC rate changes may be mitigated in the future. The ECAC forecast periods could be altered, or the recognition of low-cost hydro power could be averaged into all ECAC forecast periods even though most hydro power usually is available in the spring and early summer months.

We commend Edison for proposing a Rate Stabilization Plan. Although we do not adopt the Plan, consideration of Edison's proposal has clarified the advantages and disadvantages of rate stabilization. We will study this matter further in subsequent ECAC proceedings. At this time, we will calculate ECAC rates in a manner which is likely to levelize those rates until the end of this year.

V. AER

The purpose of the AER is to recover in rates the estimated costs forecast for the 12-month period beginning May 1, 1982 associated with the following:

1. Fuel oil inventory in rate base;
2. The estimated expense for facilities charges and underlift payments;
3. Gains and losses on the sale of fuel oil; and
4. 2% of the energy costs included in ECAC.

Edison has not forecast any gains or losses from the sale of fuel in the test period, so that this cost item is zero in our calculation of the AER.

Fuel Oil Inventory in Rate Base

The major issue in regard to the fuel oil inventory component of the AER is the appropriate volume of fuel oil to be adopted as the basis of the calculation. Edison has requested a fuel oil inventory level of 13.417[1] million barrels. Staff recommends an 11-million-barrel inventory level. TURN argues that both Edison's and staff's proposed levels are excessive and asks the Commission to direct staff to develop a new inventory level, presumably below 11 million barrels, which is related to the projected oil burn of 10.2 million barrels.

Edison contends that its 13.417 million-barrel inventory level is necessary to protect against interruptions in supply and to meet a 90-day forward supply under probable adverse conditions. The probable adverse conditions considered by Edison are:

1. An increase in electric load of from 1% to 2%;
2. A decrease in surplus and economy energy purchases of 20-30% for the April-November period and a 45-55% decrease for the December-March period;
3. Coal production at 75-85% of projected levels;
4. Hydro production at 60-70% of an average year for November-March period;
5. Reduction of 45-55% of projected nuclear production; and
6. Gas-fired production reduced by 23-36% of the projected amounts.

All of the above contingencies must occur simultaneously to justify Edison's proposed inventory level.

1/ If an adjustment for 1982 unpaid invoices is included in base rates as a reduction to working cash, the weighted average inventory is 13.116 million barrels. (Exh. 12.)

Staff points out that the criteria used by Edison to develop its inventory level are substantially the same as those used in the last AER proceeding, A.60321. The Commission rejected Edison's proposed level for that proceeding of 14.5 million barrels in favor of an 11 million-barrel level, finding Edison's proposed level "to be more directly the result of unforeseen factors, not corporate planning." (D.93640, p. 18.)

Staff contends that Edison has not met its burden of demonstrating a need to exceed the last authorized 11 million-barrel level by simply referring to the same criteria looked at in A.60321. TURN further notes that Edison's proposed 14.5 million-barrel level in A.60321 was based upon an estimated oil burn of 29.5 million barrels. The present projection of a 10.2 million-barrel oil burn, in TURN's opinion, indicates that an inventory level well below 11 million barrels is reasonable for this test period.

Both staff and TURN argue that under existing contracts Edison can increase its take to meet an increased need for low sulfur fuel oil. They contend that an 11 million-barrel inventory level plus the contract rights adequately, or in TURN's view, extravagantly, covers Edison's needs even under the probable adverse conditions scenario.

We are not persuaded by Edison's showing that an increase in the 11 million-barrel level is warranted. Accordingly, we will adopt the staff's recommended level.

TURN's request that the staff develop a lower inventory level is denied. The staff witness clearly stated that in his opinion the projected oil burn is independent of the required inventory level. Instead, TURN will be permitted to show, as it apparently believes, that "some reasonable nexus between inventory and projected fuel burn" does exist in the second phase of this proceeding.

Facilities Charges and
Underlift Payments

Under Edison's contract with Chevron, a portion of the fuel oil price is a facilities charge which compensates Chevron for the fixed operating costs and capital charges related to Chevron maintaining the capability to supply low sulfur fuel oil at a delivery rate of up to 44 million barrels per year upon demand. The facilities charge is a fixed payment which does not vary with the volume of oil Edison actually receives from Chevron. Edison estimates that the facilities charge alone will produce a revenue requirement of $95.473 million to be recovered in the AER.

TURN opposes inclusion of the facilities charge in the AER calculation for three reasons. First, TURN claims that since Edison is renegotiating its contract with Chevron, its contractual obligation to pay a facilities charge may be reduced or even eliminated. TURN argues that inclusion of the facilities charge under the existing contract in the AER could bias the current negotiations.

Second, TURN contends the price terms Edison has negotiated with Chevron are the least favorable terms it has. TURN points out that Edison witnesses in other proceedings have testified that much lower priced low sulfur fuel oil will be available from the Asian market. Therefore, TURN asserts that the price terms in the Edison-Chevron contract will be renegotiated because of lower prices in the spot market.

Third, TURN contends that the $95 million facilities charge based upon a delivery rate of 44 million barrels per year is unreasonable when Edison projects purchases of only 5.6 million barrels from Chevron in the test period. TURN points out that Chevron may not actually use the facilities paid for by Edison to process a small amount of fuel oil. Chevron may be able to use other refinery capacity to process deliveries of fuel oil substantially below the 44 million barrels demand level.

We previously have determined that:

> "The facilities charge is a cost of maintaining flexibility to manage oil requirements in response to changes in resource mix and demand."
>
> "This flexibility is necessary because of the extremely limited spot market for very low sulfur fuel oil." (D.93640, p. 23.)

We are unsure whether circumstances have changed enough to permit elimination of the facilities charge and consequently the Chevron refinery capacity dedicated to Edison's needs. Much of the evidence relied upon in TURN's arguments is drawn from testimony given in other proceedings, which may or may not address the specific issue raised here, i.e. whether the forecasted availability of low sulfur fuel oil on the spot market or from other sources enables Edison to terminate its current arrangement with Chevron to demand delivery of up to 44 million barrels of low sulfur fuel oil per year. No witness directly spoke to this issue. The staff witness did not oppose inclusion of the facilities charge in the AER and appears to have simply accepted the terms of the existing Edison-Chevron contract.

We will remove the facilities charge from the AER calculation since on balance the record now indicates that circumstances have changed substantially since the facilities charge was first negotiated by Edison and Chevron. Edison is in the process of renegotiating its Chevron contract and very well may terminate its contractual obligations. This uncertainty persuades us that we should not include this charge in the AER.

Because of this uncertainty, the facilities charge no longer is a constant which may be regarded as a necessary fixed cost. Instead, the facilities charge now resembles a variable cost more appropriately recovered through ECAC. Accordingly, we will permit ECAC recovery of a facilities charge to the extent Edison can show at the time recovery is requested that payment is prudent and reasonable. We caution Edison that mere referral to a renegotiated contract with price terms incorporating a facilities charge will not meet its burden of proof. We expect a full explanation of predicted spot market conditions, alternate supplies, and the required refinery capacity or delivery demand level. As Edison's operating conditions become more certain, we may insert the facilities charge back in the AER. However, at this time, the need for and amount of this charge appears highly volatile, and we find that ECAC recovery of this payment, after a reasonableness showing, is appropriate.

Edison has not forecast any underlift payments in the test period. However, Edison requests permission to recover such payments in ECAC subject to a reasonableness review. Edison states that negotiations with its suppliers on reductions in deliveries and the associated penalties are unresolved. To the extent Edison does incur underlift charges, it seeks the assurance of ECAC recovery.

The staff witness agreed that: "Edison will incur some expenses in reducing its required contract takes of oil." As a result, he recommends allowance of a $6/barrel disposal cost for the difference between Edison's proposed oil inventory and the 11 million-barrel staff inventory level. The disposal cost of \$6/barrel is the figure used to calculate Edison's last AER in A.60321.

Staff counsel and TURN oppose allowance of a \$6/barrel disposal cost. They argue that recognition of a disposal cost for oil inventory above the authorized inventory level is inconsistent with the Commission's selection of the optimal inventory level. They further note that the \$6/barrel disposal cost used by the Commission in A.60321 was intended to be a one-time allowance.

We agree that allowance of a \$6/barrel disposal cost is inappropriate. Edison is given adequate opportunity to recover expenses associated with reduction of oil inventory by projecting underlift charges or gains and losses from fuel oil. Edison has not chosen to seek recovery of either of those expenses. Either Edison believes it will not incur any underlift charges and fuel sale losses or it is confident that it can handle this matter outside the AER. In either case, we find that the AER should not reflect any underlift charges or disposal costs.

Additionally, Edison's request for ECAC recovery of underlift charges is rejected. Edison very well may sell oil at a profit which will not be recognized in the calculated AER or in ECAC rates. The offsetting risk which Edison must take is that it will sell oil at a loss or will pay underlift charges. We find that ECAC recovery of underlift payments would unfairly disrupt this trade-off.

2% Provision

2% of the fuel and purchased power expense otherwise recoverable in ECAC is included in the AER as an incentive to utility management. Derivation of the 2% requires a forecasted resource mix and estimated fuel prices for the entire test year, not just the four-month period covered by the ECAC revision. Edison calculates $47,408,000 as the AER portion. Staff agrees with this figure but asserts that Edison's estimate of economy and surplus power from the Pacific Northwest is probably understated. TURN notes that later estimates of hydro and purchased power will not impact the AER since only 2% of the calculated savings are included. Thus, no party contests Edison's calculation of the 2% portion. We will adopt Edison's figure since we find that use of updated estimates of Pacific Northwest economy and surplus power makes a difference in the AER of less than .001¢/kWh.

To summarize our calculation of the AER, we use 11 million barrels as the appropriate oil inventory level, adopt $47,408,000 as 2% of the fuel and purchased power expense, recognize no underlift, disposal costs, or gain or losses from the sale of fuel oil, and remove consideration of the facilities charge from the AER to a later ECAC proceeding. The calculated AER of .236¢/kWh is shown on Table 1.

TABLE 1

Calculation of AER

Revenue Requirement	(Dollars in Thousands)
Associated with Fuel Oil Inventory	$79,766
Facilities Charges	0
Underlift Payments	0
2% Fuel and Purchased Power Expense	47,408
Gains or Losses on the Sale of Fuel Oil	0
Total Net Revenue Requirement	127,174
Franchise and Uncollectibles Factor	1,296
Total Revenue Requirement	128,470
Forecast Sales M^2 kWh	54,502
AER in ¢/kWh	.236

VI. ECAC

Under established procedures the ECAC billing factors are revised three times annually. The average ECAC rate is derived from the sum of the average balancing rate and the average fuel and purchased power rate. The average ECAC rate is adjusted to derive the billing factors for each class of customer.

Edison proposes an average balancing rate of -.560¢/kWh and an average fuel and purchased power rate of 4.127¢/kWh for an average ECAC rate of 3.567¢/kWh. Staff agrees with Edison's calculation of the ECAC rates.

TURN does not agree with Edison's proposed rates. TURN asks that we consider updated estimates of Pacific Northwest economy and surplus power divulged through cross-examination of Edison's energy mix witness. TURN estimates that the ECAC fuel and purchased power expense for the forecast period can be lowered by $16 million if the updated data are used.

In addition, TURN objects to Edison's valuation of prerelease energy generated by SONGS 2. Prerelease energy is the output generated by a powerplant during its start-up phase before the plant becomes a "firm" facility. Edison prices SONGS 2 prerelease energy at its instantaneous avoided cost. The purchases of prerelease energy then are credited against the capital cost of the plant when it is entered in rate base.

TURN objects to avoided cost valuation of prerelease energy and recommends valuation at SONGS 2 expected cost of operation, .012¢/kWh. Use of TURN's method would reduce the forecasted ECAC purchased power expense by nearly $12 million. We agree with TURN on this matter and will reduce the forecasted ECAC expense by $11.934 million.

Edison also points out that the updated purchase figures from the Pacific Northwest were tentative estimates made by its witness who was not able to examine recorded data or to communicate with the Pacific Northwest about his updated estimate. Edison further argues that it would be unfair to single out one component of its calculation for updating without recognizing changes in other expenses. We agree with Edison on this matter and will adopt its filed forecast of Pacific Northwest purchases.

Although we are adopting Edison's estimates of fuel and purchased power expense, we do not choose to use its calculated average ECAC rate of 3.567¢/kWh. That rate is based upon a four-month projection of fuel and purchased power expense and a four-month amortization of the estimated overcollected balance of $103 million. As discussed previously, we will try to stabilize ECAC rates through the end of 1982 and consequently will use an eight-month forecast of fuel and purchased power expense. That eight-month forecast is adjusted downward by $11.934 million to account for our revaluation of SONGS 2 prerelease energy. In addition in the interest of moderating rate fluctuations which could flow from ECAC proceedings later in 1982, from such potential sources as natural gas cost increases, fuel contract uncertainties, and changes in fuel mix, we will amortize only one-half of the estimated overcollected balance at this time. We will use an amortization period of twelve months so that some of the overcollection is refunded to the winter customers who contributed to the overcollection. The resulting average ECAC rate of 4.206¢/kWh is shown on Table 2.

TABLE 2

Fuel and Purchased Power Expense May 1, 1982 - December 31, 1982	$1,558,936,000
kWh Sales May 1, 1982 - December 31, 1982	37,511,000,000
Average Fuel and Purchased Power Rate	4.156¢/kWh
Estimated ECAC Balance on May 1, 1982 (including Franchise & Uncollectibles) divided in half	$(52,265,500)
May 1, 1982 kWh Annualized Sales	54,502,000,000
Average Balancing Rate	(.096¢/kWh)
Average ECAC Rate	4.06¢/kWh

(Red Figure)

VII. Rate Design

The overall revenue impact of the above changes is as follows:

AER reduction	(.216)
ECAC reduction	(1.104)
	(1.320¢/kWh) x 54,502 M kWh
	= ($719.43 million)

(Red Figure)

There is very little controversy about the rate design to be used. Edison and TURN recommend that within the domestic class, an equal reduction to lifeline and nonlifeline sales should be authorized. Staff favors an allocation that preserves the existing 37% differential between lifeline and nonlifeline rates.

Since we increased all domestic rates on an equal ¢/kWh basis in Edison's last ECAC decision, D.93895, it is reasonable to decrease those rates on a uniform ¢/kWh basis. We will adopt Edison's proposed rate design for that reason.

VIII. ALJ Rulings

During the March hearings, TURN requested production of the following material: (1) the current Chevron and Pertamina contracts, (2) the Four Corners Fuel Agreement No. 2, and (3) projected fuel oil prices from each supplier for the period May 1982 through April 1983. The oil contracts previously had been asked for in a TURN data request. Edison declined to produce the documents forcing TURN to ask for an order compelling production.

The ALJ deferred ruling on the first item until he had evaluated the staff auditor's report, which had not been released, as well as TURN's need for the contracts as it might be demonstrated in the course of the proceeding. The ALJ did order Edison to divulge the second and third items. Edison has filed an Interlocutory Appeal to the Commission to overturn these two rulings and perhaps to forestall an adverse ruling on the first item. We will dispose of all three evidentiary requests at this time.

Edison argues that disclosure of the requested material would be detrimental to the public interest as it would place Edison at a competitive disadvantage in its negotiations with fuel suppliers. Edison points out that the documents sought by TURN are made available to the Commission staff, whose review sufficiently protects the public interest. Edison also maintains that access to fuel price projections over the test year is not germane to this proceeding since its existing inventory will provide 90% of the oil to be burned in the test period. The price of oil in inventory is a recorded cost which is not affected by price projections. Edison's witness acknowledged, however, that the estimates of the purchase price for fuel oil on May 1, 1982 will impact the AER calculation since oil purchased at that time will be burned near the end of the AER forecast period.

TURN argues that the material requested is relevant since the Commission must determine the 2% portion of the AER as well as the oil inventory component. Calculation of a reasonable AER, in TURN's view, requires a review of the underlying contracts as well as price projections for the forecast period. Additionally, TURN is not content with the existing procedure under which Edison provides its fuel contracts only to the Commission staff. Accordingly, TURN renews its request for discovery of these materials.

Our regulatory process vests authority over the evidentiary record in the presiding officer, who, in most proceedings, is the ALJ. (Rules 62-65.) The ALJ rules upon the admissibility of evidence and may, if appropriate, order parties to comply with data requests or to produce documents. This procedure is essential to orderly regulation as the Commission itself cannot evaluate the merits of an evidentiary issue to the extent the presiding officer is able to consider the matter. Thus, although our rules provide that an evidentiary ruling may be reviewed by the full Commission, there is a strong presumption that a ruling is correct. (Rule 65.) A party seeking review bears the burden of demonstrating that the contested ruling is clearly erroneous.

In this proceeding, we face the sensitive issue of whether fuel contracts and data should be disclosed to intervenors in an annual reasonableness proceeding. Previously, we have determined that fuel oil contracts and information may be disclosed to any party that "legitimately and properly raised" an issue of reasonableness.

(In re Fuel Clause for Southern Calif. Edison Co. (1976) 79 CPUC 758, 770.) Later we ordered disclosure of fuel oil contract pricing information to the Los Angeles Department of Water and Power (D.93122 issued June 2, 1981 in OII 66.) Most recently, we allowed all interested parties to inspect a Pacific Gas and Electric Company (PG&E)-Chevron oil purchase agreement (D.82-04-072 issued April 8, 1982 in A.82-02-09).

In resolving this issue, we weigh the need that an interested party can demonstrate for a contract or other data against the harm that may befall the utility and its ratepayers if the information sought is disclosed. In this proceeding, TURN has adequately demonstrated a compelling need for examination of all three items, i.e. the fuel oil contracts, the coal contract, and the price projections by legitimately raising a reasonableness question. The staff reports do not analyze the specific issues raised by TURN, such as the reasonableness of the facilities charge, in sufficient detail to obviate review by a third party such as TURN. And on the other hand, we are not persuaded by Edison's claims that the public interest in nondisclosure outweighs TURN's need for the documents. The provisions of the fuel oil contracts already are summarized in Edison's application and to that extent are in the public domain. What additional harm, if any, that may befall Edison if the actual contracts are produced for TURN is very speculative.

Thus, after review, we affirm the ALJ's rulings and deny Edison's Interlocutory Appeal. In addition, we will order Edison to provide copies of the Chevron and Pertamina contracts to TURN. This procedure furthers our interest in encouraging the active participation of prepared and competent intervenors such as TURN.

IX. Conservation Issues

The CEC has submitted an outline of conservation issues that it proposes to introduce in this proceeding under a request of the ALJ. The outline refers to the following topics:

1. "Fuel Costs As A Component Of SCE Rates,"
2. "Conservation As An Alternative To Fuel Expenditures,"
3. "SCE's Conservation Programs and Expenditures,"
4. "Savings Potential Not Realized,"
5. "The Regulatory Construct For Conservation," and
6. "Reforming the Regulatory Structure."

Staff and Edison have submitted responses opposing the CEC's attempt to insert these conservation issues into the ECAC proceeding.

The issues alluded to in the CEC's outline are important ones. However, their significance does not mandate consideration in this specific proceeding. We already have reopened A.60153 to consider conservation incentives and how such incentives might reduce PG&E's oil use. The CEC is a party to that proceeding. Furthermore, the CEC has entered an appearance in Edison's pending general rate proceeding, A.61138, in which Edison's conservation programs will be thoroughly evaluated. We note that CEC's representative at the Second Prehearing Conference for A.61138 held on March 4, 1982, stated that the CEC would welcome an opportunity to present a witness on conservation and oil reduction measures in that case. (PHC-2, Tr., pp. 50-51, 77.) The CEC's announced intention conforms with our preference that these issues be addressed in the context of a general rate proceeding. The assigned ALJ should not permit introduction of the CEC's outlined topics in the second phase of this ECAC proceeding.

Findings of Fact

1. By A.82-03-04, Edison requests approval of a 3.567¢/kWh average ECAC rate and a .445¢/kWh AER for a May 1 revision date.

2. As an alternative to established ECAC procedures, Edison has proposed a Rate Stabilization Plan which is intended to levelize ECAC and other adjustment rates through 1983.

3. Under the Plan, an annualized reduction of $250 million would be authorized instead of the $870 million decrease called for under established ECAC procedures.

4. The Plan's projections through the end of 1983 are very speculative; stabilization of ECAC rates based on shorter-term projections is preferable.

5. Edison requests a fuel oil inventory level of 13.417 million barrels while the staff recommends a level of 11 million barrels.

6. Edison has used virtually the same criteria to develop the 13.417 million-barrel inventory level that it used in its last AER proceeding, in which an 11 million-barrel level was authorized.

7. Under its current fuel oil contracts, Edison may increase its take to meet an unanticipated need for more low sulfur fuel oil.

8. Edison projects an oil burn of 10.2 million barrels in the test year, well below the 29.5 million-barrel burn projected in the last AER proceeding, A.60321.

9. An 11 million-barrel level is appropriate as Edison has not adequately demonstrated a need for a higher inventory level or shown changed circumstances justifying a level exceeding the previously authorized 11 million barrels.

10. Edison's fuel oil contract with Chevron requires payment of a facilities charge based upon a delivery rate of 44 million barrels of low sulfur fuel oil per year.

11. Edison expects to purchase only 5.6 million barrels of low sulfur fuel oil from Chevron in the test year.

12. Under the current contract, the facilities charge is a fixed payment which does not vary with the volume of oil actually delivered by Chevron to Edison.

13. Edison is renegotiating its contract with Chevron.

14. The contract provisions regarding the facilities charge payment may be revised or even rescinded.

15. Inclusion of the facilities charge in the AER at this time is unwise; recovery through ECAC is more appropriate.

16. Edison has not forecast any underlift payments or gains or losses from the sale of fuel oil in the forecast period; those factors do not affect calculation of the AER in this proceeding.

17. Edison's forecasts of energy mix and fuel and energy prices are reasonable; those forecasts should be used to calculate the AER as well as the ECAC billing factors.

18. Based upon the above findings, an AER of .236¢/kWh is calculated as shown on Table 1.

19. Edison projects an overcollection of $103 million in the ECAC account on May 1, 1982.

20. Amortization of one-half of the projected overcollection over twelve months is appropriate to moderate rate fluctuations which could flow from ECAC proceedings later in 1982.

21. Based upon the above findings an average ECAC rate of 4.06¢/kWh is appropriate.

22. TURN has demonstrated a need for production of the Chevron, Pertamina, and Four Corners Fuel contracts.

23. Edison has not shown that disclosure of those contracts will be harmful.

24. The CEC proposes to introduce testimony relating conservation and oil displacement incentives.

25. The CEC's proposed testimony is more appropriate for Edison's pending general rate proceeding, A.61138.

26. Since the revision date of May 1 is imminent, this order should take effect on the date of issuance.

Conclusions of Law

1. The decrease in rates and charges authorized by this decision is just and reasonable; the present rates and charges, insofar as they differ from those ordered in this decision, are for the future unjust and unreasonable.

2. The authorized decrease should be spread among the customer classes and within the domestic class on an equal ¢/kWh basis to conform with the rate design adopted in Edison's last general rate decision, D.92549, and in its last ECAC decision, D.93895.

3. The fuel contracts sought by TURN are subject to discovery by a party to this proceeding.

4. The CEC's proposed presentation on conservation and oil displacement incentives is beyond the scope of this ECAC proceeding and should be introduced in Edison's general rate proceeding, A.61138.

5. Since this is an interim opinion, the adopted AER is set on a subject to refund basis; retroactive revision of the AER may occur in the second phase of this proceeding.

INTERIM ORDER

IT IS ORDERED that:

1. On or after the effective date of this order Southern California Edison Company (Edison) shall file with this Commission, in conformance with the provisions of General Order 96-A, revised tariff schedules reflecting the following changes:

a. Energy cost adjustment billing factors: Lifeline 2.262¢/kWh, nonlifeline domestic 4.951¢/kWh, other than domestic 4.286¢/kWh.

b. Annual Energy Rate (AER) of .236¢/kWh.

The tariff schedules shall become effective no earlier than May 4, 1982.

2. Edison's Interlocutory Appeal to the Commission is denied, and the ALJ's rulings are affirmed.

3. Edison shall release the fuel contracts requested to TURN.

4. The ALJ shall not permit introduction by the California Energy Commission of conservation and oil reduction incentives in the second phase of this proceeding.

5. The AER is set on a subject to refund basis.

This order is effective today.

Dated April 28, 1982, at San Francisco, California.

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

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

Joseph E. Bodovitz

Joseph E. Bodovitz, Executive Director

We decline to adopt a Rate Stabilization Plan (Plan) proposed by Southern California Edison Company (Edison). However, we set ECAC billing factors which should protect against additional fuel cost increases through the remainder of the year.

We remove the facilities charge component from the AER calculation since Edison's pending negotiation with Chevron U.S.A., Inc. (Chevron) indicates that substantial changes in the underlying contract will be made. ECAC recovery after a reasonableness showing is permitted as an alternative.

Last, we order disclosure of certain contracts to an intervenor who has demonstrated a compelling need for the documents that outweighs Edison's allegations of harm likely to result from disclosure.

II. Background

By Application (A.) 82-03-04, Edison requests approval of reduced ECAC billing factors and a new AER. In addition, A.82-03-04 includes Edison's report on the reasonableness of fuel and purchased power expenses incurred in 1981. Finally, Edison proposes implementation of a Rate Stabilization Plan (Plan), under which imminent ECAC rate reductions are postponed to offset the impact of future ECAC rate increases and major additions to Edison's rate base.

The scheduled revision date for A.82-03-04 is May 1. Because of the complex issues raised in this application, the staff was unable to complete its entire review within the time allowed. Since Edison's filing indicates that a substantial rate reduction is appropriate, hearings were held on March 15 - March 17, 1982, so that reduced rates may take effect on the May 1 revision date. Further hearings will be held in May to consider Edison's reasonableness report as well as any other issues that were not fully addressed in the March hearings.

The staff witness abstained on this matter, saying only that approval or disapproval of the Plan is a policy decision to be made by the Commission. Staff counsel recommends that if the Plan is adopted, it should include a "trigger" mechanism to adjust ECAC rates only if the undercollected or overcollected balance exceeds $250 million.

After consideration of the above arguments, we find no support for the Plan. Edison's claim that its customers desire and will benefit from the proposal is contradicted by industrial, agricultural, and residential customers. Edison itself denies the existence of any financial benefits from the Plan, leaving us with no justification for the Plan from either the utility or the customer perspective. Accordingly, we decline to adopt Edison's proposed Plan.

Although we do not adopt Edison's Plan, we recognize that seasonal ECAC rate changes caused by swings in the energy mix confuse those ratepayers who are not knowledgeable about the shifting availability of fuel and purchased power from Edison's suppliers. Residential, commercial, and industrial customers are discouraged from planning energy budgets or undertaking long-term investments in conservation measures as they perceive that electric rates are fluctuating up or down every four months. For this reason, we believe that some steps toward moderating short-term rate fluctuations should be taken at this time.

Edison's Plan was based upon forecasts of energy mix and expense through the end of 1983, a forecast period of 20 months. Those long-range estimates are, like most economic projections, necessarily speculative. While we have more confidence in the accuracy of shorter term predictions, even short term projections have often been far from accurate. Edison ratepayers are today receiving the benefits of an unusual combination of circumstances leading to a substantial rate reduction. These circumstances include excess oil supplies on the world market, declining oil prices, plentiful supplies of natural gas, and plentiful availability of purchased power, particularly hydro power. If we were to assume that this combination of circumstances were to continue, rates could be reduced more than we have done in this order. We do not think this is realistic. Prudent regulation requires that we not assume the most optimistic set of circumstances will continue to prevail.

We are also moved by equitable considerations to bring more stability to rates. Customers whose usage is greater in winter than in summer bore an unusually severe burden this past winter. Rates were increased substantially in January to cover financial attrition and to reduce undercollections in the ECAC account. These increases, coupled with a cold winter, led to bills being much higher this year than last. Were we to take the most optimistic view and reduce rates the maximum amount possible, these customers would receive none of the benefit. Even worse, these same customers would again bear the brunt of the greater rate increase likely to result next winter. By somewhat stabilizing rates at this time, Edison's high winter usuage customers can receive some of the current benefits while at the same time leaving rates for high summer usuage customers only slightly above last year's levels. We consider this a just and reasonable distribution of benefits to all of Edison's customers.

Evidence introduced in this proceeding includes a forecast of Edison's energy mix and expense for May 1, 1982 through December 31, 1982. (Exhibit 8.) In addition, the record contains alternate computations which are intended to levelize ECAC rates through the end of 1982. (Exhibit 14.) We will use this information and attempt to stabilize ECAC rates for the remainder of the year.

The intent of existing ECAC procedures has been to match revenues with expenses as closely as possible. Since fuel oil is Edison's most expensive energy source, the amount of fuel oil burned has become the most important factor in ECAC proceedings. If Edison can obtain more natural gas, purchased power, or hydro, it will burn less oil and ECAC rates should drop. On the other hand if less gas, hydro, or purcahsed power is available to Edison, then it must burn more oil and ECAC rates must rise. Consequently, ECAC proceedings are currently characterized as much by the seasonal energy mix as by fuel price fluctuations. We will ask our staff and the utilities to consider how seasonal ECAC rate changes may be mitigated in the future. The ECAC forecast periods could be altered, or the recognition of low-cost hydro power could be averaged into all ECAC forecast periods even though most hydro power usually is available in the spring and early summer months.

We commend Edison for proposing a Rate Stabilization Plan. Although we do not adopt the Plan, consideration of Edison's proposal has clarified the advantages and disadvantages of rate stabilization. We will study this matter further in subsequent ECAC proceedings. At this time, we will calculate ECAC rates in a manner which is likely to levelize those rates until the end of this year.

V. AER

The purpose of the AER is to recover in rates the estimated costs forecast for the 12-month period beginning May 1, 1982 associated with the following:

1. Fuel oil inventory in rate base;
2. The estimated expense for facilities charges and underlift payments;
3. Gains and losses on the sale of fuel oil; and
4. 2% of the energy costs included in ECAC.

Edison has not forecast any gains or losses from the sale of fuel in the test period; so that the ~~third cost~~ cost item ~~does not affect~~ is zero in our calculation of the AER.

Fuel Oil Inventory in Rate Base

The major issue in regard to the fuel oil inventory component of the AER is the appropriate volume of fuel oil to be and projected fuel burn" does exist in the second phase of this proceeding. If a sufficient evidentiary showing is made by TURN, we will adjust the adopted inventory level of 11 million barrels.

SS

Facilities Charges and
Underlift Payments

Under Edison's contract with Chevron, a portion of the fuel oil price is a facilities charge which compensates Chevron for the fixed operating costs and capital charges related to Chevron maintaining the capability to supply low sulfur fuel oil at a delivery rate of up to 44 million barrels per year upon demand. The facilities charge is a fixed payment which does not vary with the volume of oil Edison actually receives from Chevron. Edison estimates that the facilities charge alone will produce a revenue requirement of $95.473 million to be recovered in the AER.

TURN opposes inclusion of the facilities charge in the AER calculation for three reasons. First, TURN claims that since Edison is renegotiating its contract with Chevron, its contractual obligation to pay a facilities charge may be reduced or even eliminated. TURN argues that inclusion of the facilities charge under the existing contract in the AER could bias the current negotiations.

Second, TURN contends the price terms Edison has negotiated with Chevron are the least favorable terms it has. TURN points out that Edison witnesses in other proceedings have testified that much lower priced low sulfur fuel oil will be available from the Asian market. Therefore, TURN asserts that the price terms in the Edison-Chevron contract will be renegotiated because of lower prices in the spot market.

Edison also points out that the updated purchase figures from the Pacific Northwest were tentative estimates made by its witness who was not able to examine recorded data or to communicate with the Pacific Northwest about his updated estimate. Edison further argues that it would be unfair to single out one component of its calculation for updating without recognizing changes in other expenses. We agree with Edison on this matter and will adopt its filed forecast of Pacific Northwest purchases.

Although we are adopting Edison's estimates of fuel and purchased power expense, we do not choose to use its calculated average ECAC rate of 3.567¢/kWh. That rate is based upon a four-month projection of fuel and purchased power expense and a four-month amortization of the estimated overcollected balance of $103 million. As discussed previously, we will try to stabilize ECAC rates through the end of 1982 and consequently will use an eight-month forecast of fuel and purchased power expense. That eight-month forecast is adjusted downward by $11.934 million to account for our revaluation of SONGS 2 prerelease energy. In addition, in the interest of moderating rate fluctuations which could flow from ECAC proceedings later in 1982, from such potential sources as natural gas cost increases, fuel contract uncertainties, and changes in fuel mix, we will amortize only one-half of the estimated overcollected balance at this time. We will use an amortization period of twelve months so that some of the overcollection is refunded to the winter customers who contributed to the over-collection. The resulting average ECAC rate of 4.06¢/kWh is shown on Table 2.

TABLE 2

Fuel and Purchased Power Expense May 1, 1982 - December 31, 1982	$1,558,936,000
kWh Sales May 1, 1982 - December 31, 1982	37,511,000,000
Average Fuel and Purchased Power Rate	4.156¢/kWh
Estimated ECAC Balance on May 1, 1982 (including Franchise & Uncollectibles) divided in half	$(52,265,500)
May 1, 1982 kWh Annualized Sales	54,502,000,000
Average Balancing Rate	(.096¢/kWh)
Average ECAC Rate	4.06¢/kWh

(Red Figure)

VII. Rate Design

The overall revenue impact of the above changes is as follows:

AER reduction	(.216)
ECAC reduction	(1.104)
	(1.320¢/kWh) x 54,502 M^2 kWh
	= ($719.43 million)

(Red Figure)

There is very little controversy about the rate design to be used. Edison and TURN recommend that within the domestic class, an equal reduction to lifeline and nonlifeline sales should be authorized. Staff favors an allocation that preserves the existing 37% differential between lifeline and nonlifeline rates.

opportunity to present a witness on conservation and oil reduction measures in that case. (PHC-2, Tr., pp. 50-51, 77.) The CEC's announced intention conforms with our preference that these issues be addressed in the context of a general rate proceeding. The assigned ALJ should not permit introduction of the CEC's outlined topics in the second phase of this ECAC proceeding.

Findings of Fact

1. By A.82-03-04, Edison requests approval of a 3.567¢/kWh average ECAC rate and a .445¢/kWh AER for a May 1 revision date.

2. As an alternative to established ECAC procedures, Edison has proposed a Rate Stabilization Plan which is intended to levelize ECAC and other adjustment rates through 1983.

3. Under the Plan, an annualized reduction of $250 million would be authorized instead of the $870 million decrease called for under established ECAC procedures.

4. The Plan's projections through the end of 1983 are very speculative; stabilization of ECAC rates based on shorter-term projections is preferable.

5. Edison requests a fuel oil inventory level of 13.417 million barrels while the staff recommends a level of 11 million barrels.

6. Edison has used virtually the same criteria to develop the 13.417 million-barrel inventory level that it used in its last AER proceeding, in which an 11 million-barrel level was authorized.

7. Under its current fuel oil contracts, Edison may increase its take to meet an unanticipated need for more low sulfur fuel oil.

8. Edison projects an oil burn of 10.2 million barrels in the test year, well below the 29.5 million-barrel burn projected in the last AER proceeding, A.60321.

9. An 11 million-barrel level is appropriate as Edison has not adequately demonstrated a need for a higher inventory level or shown changed circumstances justifying a level exceeding the previously authorized 11 million barrels.

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15. Inclusion of the facilities charge in the AER at this time is unwise; recovery through ECAC is more appropriate.

16. Edison has not forecast any underlift payments or gains or losses from the sale of fuel oil in the forecast period; those factors do not affect calculation of the AER in this proceeding.

17. Edison's forecasts of energy mix and fuel and energy prices are reasonable; those forecasts should be used to calculate the AER as well as the ECAC billing factors.

18. Based upon the above findings, an AER of .236¢/kWh is calculated as shown on Table 1.

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25. The CEC's proposed testimony is more appropriate for Edison's pending general rate proceeding, A.61138.

26. Since the revision date of May 1 is imminent, this order should take effect on the date of issuance.

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4. The CEC's proposed presentation on conservation and oil displacement incentives is beyond the scope of this ECAC proceeding and should be introduced in Edison's general rate proceeding, A.61138.

5. Since this is an interim opinion, the adopted AER is set on a subject to refund basis; retroactive revision of the AER may occur in the second phase of this proceeding.

INTERIM ORDER

IT IS ORDERED that:

1. On or after the effective date of this order Southern California Edison Company (Edison) ~~is authorized to~~ Shall file with this Commission, in conformance with the provisions of General Order 96-A, revised tariff schedules reflecting the following changes:

a. Energy cost adjustment billing factors: Lifeline 2.262¢/kWh, nonlifeline domestic 4.951¢/kWh, other than domestic 4.286¢/kWh.

b. Annual Energy Rate (AER) of .236¢/kWh.

The tariff schedules Shall become effective no later than May 4 ~~on May 1~~, 1982. ~~or 5 days after filing, whichever is later.~~

2. Edison's Interlocutory Appeal to the Commission is denied, and the ALJ's rulings are affirmed.

3. Edison shall release the fuel contracts requested to TURN.

4. The ALJ shall not permit introduction by the California Energy Commission of conservation and oil reduction incentives in the second phase of this proceeding.

5. The AER is set on a subject to refund basis.

6. This order is effective today.

Dated APR 28 1982, at San Francisco, California.

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