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ORIGINAL

BEFORE THE PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

In the Matter of the Application of SOUTHERN CALIFORNIA EDISON COMPANY for authority to maintain its presently effective Energy Cost Adjustment Billing Factors and Catalina Energy Cost Balance Adjustment Billing Factor.	Application 82-07-10 (Filed July 2, 1982)

John R. Bury, Richard K. Durant, James M. Lehrer, and Carol B. Henningson, Attorneys at Law, by Carol B. Henningson, for Southern California Edison Company, applicant.
Glen J. Sullivan and Allen R. Crown, Attorneys at Law, for California Farm Bureau Federation; Robert M. Loch and Thomas D. Clarke, by Robert W. Jacoby, Attorney at Law, for Southern California Gas Company; and Brobeck, Phleger & Harrison, by Gordon E. Davis, William H. Booth, and Richard C. Harper, for California Manufacturers Association; interested parties.
Edward W. O'Neill, Attorney at Law, and Bill Y. Lee, for the Commission staff.

OPINION

I. Summary

By this order, we maintain the current Energy Cost Adjustment Clause (ECAC) rate of 4.045 cents per kilowatt-hour (¢/kWh).

We also grant Edison's Petition for Modification of Decision (D.) 82-04-119, regarding the method of pricing prerelease energy from SONGS (San Onofre Nuclear Generating Station) Unit 2. We value the prerelease energy from SONGS Unit 2 at Edison's avoided cost for as-available energy purchases as filed on a quarterly basis. All other portions of D.82-04-119 remain unchanged; a final opinion addressing the annual reasonableness review of Edison's fuel and purchased power expenses in that proceeding, Application (A.) 82-03-04, will be issued later this year.

II. Background

Under established procedures the ECAC billing factors are revised three times annually. Edison may request changes three times a year, based on revision dates of January 1, May 1, and September 1. The reasonableness of fuel-related expenses is examined once each year; in Edison's case, the annual reasonableness review is associated with the May 1 revision date.

This application, A.82-07-10, was filed on July 2, 1982 for a revision date of September 1. Public hearing was held on July 27, 1982 in Los Angeles, California. Edison presented four witnesses in support of its application. The Commission staff (staff) offered one witness. The California Farm Bureau Federation and the California Manufacturers Association also appeared and participated through cross-examination. A.82-07-10 was submitted on July 27, 1982 after the receipt of oral argument from the parties.

III. Issues

The prudency of Edison's energy mix and the reasonableness of the fuel prices are not at issue in this filing. We will review only the estimates of fuel prices, energy prices, the balancing account overcollection, and sales to customers for the period beginning September 1, 1982.

In addition, we will address Edison's Petition for Modification of D.82-04-119, which requests a change in our valuation of prerelease energy from SONGS Unit 2. This petition is addressed in this decision since it affects our calculation of the average ECAC rate for the forecast period.

IV. Applicant's Showing

Edison's direct showing is contained in Exhibits 1 and 2. These materials contain forecasts based upon estimated expenses for the four-, eight-, and 12-month periods starting September 1, 1982. Three forecasts of varying duration were requested by the administrative law judge (ALJ) so that the Commission could examine short-, medium-, and long-term projections of fuel and purchased power expense and the impact of these projections on ECAC rate levels.

Edison's forecasts predict that over the coming year revenues should vary as follows under normal ECAC procedures:

Revision Date	Annualized Revenue Change
September 1, 1982	($171.8 million)
January 1, 1983	$27 million
May 1, 1983	($413 million)

Thus, ECAC rates would decrease on September 1 and May 1 with a small increase on January 1. These revenue projections assume: (1) a 12-month amortization of the overcollected balance, and (2) commercial operation and inclusion in rate base of SONGS Unit 2 in October 1982.

Edison asks that the Commission also consider the rate impact of two pending applications: A.61138, Edison's 1983 test year general rate case, and A.82-02-40, the Major Additions Adjustment Clause (MAAC). A.61138 requests a general rate increase of $868.8 million on an annualized basis on or after January 1, 1983. A.82-02-40 requests a rate increase of $360.7 million on an annualized basis on or after October 1, 1982 to cover the costs of owning, operating, and maintaining SONGS Unit 2. These two applications together propose a base rate increase of nearly

$1,230 million. Because of these pending applications, Edison asks that we maintain the present ECAC billing factors and not reduce its ECAC rates on September 1. In other words, Edison suggests that we delay the revenue decrease calculated under normal ECAC procedures for September 1. Instead, Edison submits that ECAC rates should be lowered at the same time base rates are increased either for the MAAC application or for the general rate case. In Edison's view, this postponement of an ECAC decrease will reduce rate fluctuation and will help levelize total rates.

In summary, Edison has calculated an annualized decrease of $171.8 million under established ECAC procedures for the revision date of September 1, assuming that SONGS Unit 2 is included in rate base beginning in October 1982. Edison asks that, instead of lowering rates on September 1, we maintain the ECAC billing factors at their present level and postpone any ECAC rate decrease until it can offset an authorized base rate increase for MAAC or the 1983 test year general rate case.

V. Staff Showing

The staff showing is contained primarily in Exhibits 5 and 6. (Exhibit 6 consists of five graphs which colorfully depict the impact on ECAC and base rates of fuel forecasts, MAAC, and the general rate case from September 1982 to May 1983.) The staff reviewed Edison's filing and accepted Edison's estimates of fuel prices, energy prices, sales, and the balancing account overcollection. Staff also agrees with Edison's selection of a 12-month period to amortize the overcollected balance. Staff takes exception only to Edison's assumption that the commercial operating date of SONGS Unit 2 could be as early as October 1982.

Edison priced prerelease energy generated by SONGS Unit 2 in September 1982 at a monthly avoided cost of 4.7¢/kWh. This method is consistent with Edison's position that prerelease energy should be valued at avoided cost. Energy generated from SONGS Unit 2 in subsequent months of the forecast period, i.e. October, November, and December, is treated as normal nuclear firm production. During cross-examination, Edison's witness agreed that if SONGS Unit 2 does not enter rate base in October 1982, as the company has assumed, then energy generated by SONGS Unit 2 in October and following months should be priced as prerelease energy.

Staff maintains that SONGS Unit 2 will not be included in rate base until the end of March 1983. Staff relies upon the Commission's ratification by minute order on July 21, 1982 of ALJ Tomita's ruling of June 14, 1982 for A.82-02-40 and A.82-03-63. Accordingly, staff recommends that all energy generated from SONGS Unit 2 should be treated as prerelease energy at least until the end of March.

Staff has priced prerelease energy at a nuclear fuel cost of about 1.2¢/kWh in accordance with D.82-04-119 and also has prepared alternate calculations based upon Edison's avoided costs. Staff prepared these alternate calculations since Edison's Petition for Modification of D.82-04-119 is pending and the Commission could decide to use avoided costs rather than nuclear fuel costs to price prerelease energy.

Although staff does not recommend any specific ECAC rate, staff counsel points out that Edison's total rate level will be affected by its general rate case and MAAC no matter how the Commission adjusts its ECAC rates. Staff counsel submits that even if the Commission is concerned about rate fluctuation, deferral of an ECAC rate reduction in this proceeding will have little effect. Staff counsel also notes that Edison has failed to produce any convincing evidence on this record showing that rate fluctuation has any significant adverse impacts on ratepayers. Accordingly, staff counsel recommends that the Commission follow normal ECAC procedures and give little or no consideration to the non-ECAC factors such as MAAC or the general rate case which Edison asks us to recognize.

VI. Petition for Modification of D.82-04-119

On May 18, 1982, Edison attempted to file an Application for Rehearing of D.82-04-119, our last ECAC decision for Edison. The Docket Office retitled it as a Petition for Modification of D.82-04-119 since the pleading did not clearly specify an allegation of legal error as required by Public Utilities Code § 1732 and our Rules of Practice and Procedure.

In the petition, Edison asks us to modify those portions of D.82-04-119 which state that prerelease energy from SONGS Unit 2 should be valued at "...SONGS 2 expected cost of operation, 1.2¢/kWh..." rather than Edison's avoided cost.

Edison contends that the valuation of prerelease energy at avoided cost is consistent with recognized accounting practice for the pricing of precommercial energy from all baseload units.

Edison further argues that avoided cost pricing is beneficial to ratepayers in the long-term since the avoided cost payments received by Edison are credited to construction costs and reduce the amount of capital cost that eventually is placed in rate base. Under the present "cost of operation" method, Edison contends that present ratepayers receive prerelease energy at an artificially low price while future ratepayers pay for all the capital costs of the plant when it does enter rate base at a future date.

Staff, in A.82-03-04, also has recommended that the Commission modify D.82-04-119 and adopt an avoided cost method to price prerelease energy. Staff maintains that avoided cost pricing is the standard treatment for precommercial energy. Staff also argues that a "cost of operation" method misallocates costs and benefits of SONGS Unit 2 prerelease energy and gives an inaccurate price signal to ratepayers.

Toward Utility Rate Normalization (TURN) in its Opening Brief for A.82-03-04 opposes Edison's petition and asks that the Commission continue to price prerelease energy at SONGS Unit 2 cost of operation. TURN disputes the avoided cost pricing method favored by both Edison and staff and claims neither party has pointed to any valid reason for changing D.82-04-119.

In resolving this matter, we take official notice of the portions of the record in A.82-03-04 which relate to pricing of prerelease energy.

We agree with Edison and staff that the current method of pricing prerelease energy at SONGS Unit 2 cost of operation mismatches costs and benefits among present and future ratepayers. Under the current method, present ratepayers receive the benefit of prerelease energy yet pay only for the nuclear fuel expense associated with the generation of that prerelease energy. Present ratepayers do not pay for any expenses associated with building, financing, and maintaining SONGS Unit 2 under the current method. Thus, present ratepayers receive the benefit of energy from low-priced nuclear fuel without paying any of the capital cost associated with the nuclear plant. Under the current method, present ratepayers do not pay a fair price for prerelease energy.

The avoided cost approach advocated by Edison and staff remedies this inequity. Under this approach, present ratepayers pay for prerelease energy at the incremental cost which would be incurred if only currently used and useful generating facilities were available to generate electricity. Avoided cost represents the current economic value of the prerelease energy. Further, present ratepayers will pay a more equitable portion of SONGS Unit 2 capital costs, since the amount eventually ratebased will be comparably reduced.

We find for the above reasons that avoided cost pricing better allocates the costs and benefits of prerelease energy among Edison's present and future ratepayers. Accordingly, we grant Edison's petition and will price all prerelease energy in the forecast period at Edison's avoided cost. However, instead of relying on instantaneous or monthly projections of Edison's avoided cost in pricing prerelease energy, we will rely on quarterly projections of Edison's avoided cost. This is consistent with Edison's use of quarterly projections of avoided cost in pricing energy paid to cogenerators and small power producers. Prerelease energy from SONGS Unit 2 will be priced at the same avoided cost paid for as-available energy purchases, which is filed quarterly and currently is 5.1¢/kWh.

VII. ECAC Rates

We accept Edison's forecasts of sales, fuel prices, and energy prices to evaluate ECAC rates, with the exception of energy from SONGS Unit 2.

We observe that future projections of ECAC rate levels depend in large part on the date SONGS Unit 2 becomes commercially operative and placed in rate base. In its application Edison assumed a commercial operation date of October 1982. Edison projected a $172 million annualized reduction in ECAC rates on September 1 using a 12-month amortization of the current overcollection. Edison further projected a slight increase in ECAC rates on January 1, 1983, the next revision date, and a large reduction in ECAC rates on May 1, 1983, the spring revision date.

If we assume that the commercial operation date for SONGS Unit 2 more likely will occur sometime during the spring of 1983, the ECAC projections must be revised.[1] Pricing prerelease energy from SONGS Unit 2 at avoided cost and amortizing the overcollection over 12 months would allow an annualized reduction in ECAC rates on September 1 of $90 million. It is not clear what the level of ECAC rates will be in January of 1983. We would anticipate that because of the delay of placing SONGS Unit 2 in rate base, the increase in January would necessarily be larger than projected by Edison.

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[1] By decision issued today we affirm the ruling of ALJ Tomita which establishes the commercial operating date of SONGS Unit 2 as the date when all of the initial start up testing, including the warranty run, has been successfully completed.

We also observe that between September 1, 1982 and Edison's next revision date on January 1, 1983 the overcollection in the ECAC balancing account will decrease steadily each month.

In light of the relatively small reduction in ECAC rates beginning September 1, the uncertain status of SONGS Unit 2 as it affects January ECAC rates, and the steady decrease of the current overcollection, we find that it is reasonable to maintain ECAC rates at their present level of 4.045¢/kWh. By the January 1, 1983 revision date we expect to have further information on the status of SONGS Unit 2 which we can use to set future ECAC rates.

Maintenance of present ECAC rate levels also provides a degree of rate stability to customers. As we stated in our decision in Edison's last ECAC proceeding, 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 few months. We therefore believe that it is reasonable to take steps to moderate short-term rate fluctuations. Since Edison is expected to receive a general rate increase effective on January 1, 1983, we find that no useful purpose is served by reducing rates today only to increase them again some two months later.

Findings of Fact

1. In A.82-07-10, Edison requests authority to maintain its present ECAC billing factors.

2. Edison's forecasts of sales, fuel prices, and energy prices, with the exception of energy from SONGS Unit 2, are reasonable.

3. Edison projects annualized ECAC revenue changes of a $171.8 million reduction on September 1, 1982, a $27 million increase on January 1, 1983, and a $413 million reduction on May 1, 1983. These changes assume that SONGS Unit 2 is commercially operable and is placed in rate base in October 1982.

4. Staff maintains that the placing of SONGS Unit 2 in rate base in or after March 1983 is a better assumption, based on ALJ Tomita's ruling of June 14, 1982 for A.82-02-40 and A.82-03-63.

5. Energy generated by SONGS Unit 2 before the commercial operation date is prerelease energy.

6. Edison has filed a Petition for Modification of D.82-04-119, requesting that all prerelease energy from SONGS Unit 2 be valued at avoided cost.

7. The pricing of prerelease energy at avoided cost better allocates costs and benefits among present and future ratepayers.

8. Pricing prerelease energy from SONGS Unit 2 at avoided cost and amortizing the current overcollection over 12 months would allow an annualized reduction in ECAC rates on September 1 of $90 million. This assumes that SONGS Unit 2 will not be placed in rate base before the spring of 1983.

9. The current overcollection in the ECAC balancing account is decreasing steadily each month.

10. In its pending application, A.61138, Edison has requested a revenue increase of $868.8 million beginning January 1983.

11. Rate stability is furthered by maintaining the present level of ECAC rates.

Conclusions of Law

1. Maintaining ECAC rates at their present levels is reasonable.

2. Edison's Petition for Modification of D.82-04-119 should be granted, with the exception that quarterly instead of monthly projections of avoided cost should be used in pricing prerelease energy from SONGS Unit 2; D.82-04-119 should be modified to conform with this decision.

3. Because the tariff revision date has passed this order should be effective today.

O R D E R

IT IS ORDERED that:

1. Southern California Edison Company (Edison) shall maintain current tariff schedules reflecting the energy cost adjustment clause billing factor adopted by D.82-04-119.

2. Edison's Petition for Modification of D.82-04-119 is granted, with the exception that quarterly instead of monthly projections of avoided cost shall be used in pricing prerelease energy from SONGS Unit 2.

This order is effective today.

Dated SEP 22 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, Executive Director

of operation. TURN disputes the avoided cost pricing method favored by both Edison and staff and claims neither party has pointed to any valid reason for changing D.82-04-119.

In resolving this matter, we take official notice of the portions of the record in A.82-03-04 which relate to pricing of prerelease energy.

We agree with Edison and staff that the current method of pricing prerelease energy at SONGS Unit 2 cost of operation mismatches costs and benefits among present and future ratepayers. Under the current method, present ratepayers receive the benefit of prerelease energy yet pay only for the nuclear fuel expense associated with the generation of that prerelease energy. Present ratepayers do not pay for any expenses associated with building, financing, and maintaining SONGS Unit 2 under the current method. Thus, present ratepayers receive the benefit of energy from low-priced nuclear fuel without paying any of the capital cost associated with the nuclear plant. Under the current method, present ratepayers do not pay a fair price for prerelease energy.

The avoided cost approach advocated by Edison and staff remedies this inequity. Under this approach, present ratepayers pay for prerelease energy at the incremental cost which would be incurred if only currently used and useful generating facilities were available to generate electricity. Under this approach, because present ratepayers are not paying for the capital costs of SONGS Unit 2 which is not yet entered in rate base, they do not receive any related fuel savings.

We find for the above reasons that avoided cost pricing better allocates the costs and benefits of prerelease energy among Edison's present and future ratepayers. Accordingly, we grant Edison's petition and will price all prerelease energy in the forecast period at Edison's avoided cost. However, instead of relying on instantaneous or monthly projections of Edison's avoided cost in pricing prerelease energy, we will rely on quarterly projections of Edison's avoided cost. This is consistent with Edison's use of quarterly projections of avoided cost in pricing energy paid to cogenerators and small power producers. Prerelease energy from SONGS Unit 2 will be priced at the same avoided cost paid for as-available energy purchases, which is filed quarterly and currently is 5.1¢/kWh.

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