State of California

Memorandum

Date : January 19, 1983

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ORIGINAL

To : Formal File

From : Public Utilities Commission — San Francisco

Randolph L. Wu
R.L. Wu
Administrative Law Judge

File No.: A.82-03-04 (Filed March 1, 1982)

Subject: Proposed Decision

The Commission has adopted my proposed decision as its final decision for A.82-03-04. Accordingly, a separate document need not be placed in the formal file or served upon all parties of record.

RLW:bw

ALJ/vdl *

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Decision 83 01 053 JAN 19 1983

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BEFORE THE PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

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)

(Appearances listed in Interim Opinion, D.82-04-119.)

FINAL OPINION

I. Summary

By this order, we dispose of the remaining issues in Application (A.) 82-03-04 regarding the reasonableness of Southern California Edison Company's (Edison) fuel and purchased power transactions in 1981.

After reviewing Edison's reasonableness report and the reports submitted by our staff, we find no specific instances of unreasonable or imprudent conduct by Edison apart from the performance of Mohave Units 1 and 2.

In 1981, Edison's fuel and energy resources were managed to take advantage of low-cost economy power and increased gas supplies. Higher priced oil generation was displaced so that oil resources accounted for only 21% of Edison's total energy requirements in 1981 as compared to 28% in 1980.

We do adopt staff recommendations for disallowances in two areas. First, we adopt the staff's recommended ratemaking treatment for the 1978-1982 Exchange Agreement with Portland General Electric Company (Portland Exchange). This results in a disallowance of $14,565,000 from the Energy Cost Adjustment Clause (ECAC) balancing account. Edison will be permitted to recover the financing or carrying costs associated with the Portland Exchange, amounting to $4,940,000.

Second, we apply the Coal Plant Incentive Procedure (Procedure) set forth in D.93363 to the operation of Edison's Mohave Units 1 and 2 in 1981. Application of this Procedure results in a penalty of $4,319,000, based on the failure of the Mohave plants to meet their performance standards. This Procedure has been applied only to 98% of the energy costs in conformance with D.82-03-053.

Apart from our staff, Toward Utility Rate Normalization (TURN) and the California Energy Commission (CEC) intervened and participated in this proceeding.

TURN raised reasonableness questions about Edison's fuel oil purchases, coal contract expenses, and the operation of San Onofre Generating Station (SONGS) Unit 1. TURN's brief contains many allegations of imprudence which are based entirely upon cross-examination of Edison and staff witnesses since TURN did not sponsor any witnesses. While we find that this evidentiary record cannot support the findings and conclusions of imprudence that TURN would have us make, we leave open two issues regarding the prudence of Edison's renegotiation of its Utah International coal contract and the reasonableness of replacement fuel costs due to the July-August outage at SONGS Unit 1 for resolution during Edison's next reasonableness review.

The CEC appeared solely to advocate more extensive monitoring of the power pooling opportunities available to Edison in the record period. The staff supports the CEC's proposal while Edison opposes it. We find merit in the CEC's proposal and will order Edison to devise and implement a power pooling monitoring system with the CEC and our staff.

II. Background

A.82-03-04 involves revision of Edison's ECAC billing factors, determination of a new AER, and the annual review of Edison's 1981 fuel and energy transactions. The ECAC billing factors and AER were revised in an interim decision, D.82-04-119 issued April 28, 1982. Additional hearings were held on May 3-7 and May 24, 1982 to receive Edison's annual reasonableness report. Edison presented seven witnesses in support of its reasonableness showing. The staff offered two witnesses, and the CEC sponsored one witness on power pooling. Opening briefs were filed by Edison, staff, TURN, and the CEC on or before July 2, 1982. Reply briefs were filed by Edison, staff, and TURN on or before July 30, 1982.

On September 22, 1982, the Commission issued D.82-09-104 for A.82-07-10 maintaining the ECAC billing factors adopted in D.82-04-119. The decision also modified D.82-04-119 to value prerelease energy from SONGS Unit 2 at Edison's avoided cost for as-available energy purchases filed on a quarterly basis. All other portions of D.82-04-119 were left unchanged.

III. Issues

This opinion addresses the general question of whether Edison's fuel and purchased power transactions in 1981 were reasonable. The following specific reasonableness issues emerged at hearing and in the briefs filed by the parties:

1. How should energy received under the Portland Exchange be valued for ratemaking purposes?

2. Should the Procedure be applied to operations at the Mohave Generating Station in 1981?
3. Has TURN shown that in 1981 Edison was imprudent in its fuel oil purchases, in renegotiating its Four Corners Coal Agreement, or in operation of SONGS Unit 1?
4. Should Edison be required to include additional data on its power pooling and economy energy transactions in its annual reasonableness report as recommended by the CEC?

IV. Overview of Edison's 1981 Energy Resources

Edison's generation system consists of fossil-fueled generation (oil, gas, and coal), nuclear generation, hydroelectric generation, and purchased power and interchanges. From 1980 to 1981, Edison's generation mix changed as follows:

	1980(%)	1981(%)
Oil	28	21
Gas	30	34
Coal	12	12
Nuclear	1	1
Hydro	9	6
Purchased/Interchange	20	26
	100%	100%

Annual production from gas increased, and annual purchased power and interchange increased substantially. These increases enabled a 7% decrease in oil-fired generation in 1981.

Edison operated 13 oil and gas plants and two coal plants in 1981. These plants together produced 46,022 million kilowatts of electricity. The 1981 forced outage rate for these units was below 16%. The heat rate for the oil and gas units increased from 9,996 Btu/kWh in 1980 to 10,197 Btu/kWh in 1981.

Edison asserts that its operation of its oil and gas units was reasonable and prudent. The staff witness concurred that the units' heat rates and capacity factors were all within acceptable limits.

Edison operated one nuclear plant in 1981, SONGS Unit 1. The plant generated only 624 million kWh in 1981 because of three major outages. The first began in 1980 and ended June 17, 1981. This outage was due to repair of the steam generation tubes. The second major outage occurred from July 17, 1981 to August 16, 1981. This outage was caused by fire damage at one of the two emergency diesel generators. The last major outage in 1981 took place from September 3, 1981 to November 3, 1981. This outage occurred when a regulated power supply failed.

Edison asserts that all of these outages were unforeseeable in nature. Edison further maintains that its maintenance and operation of SONGS Unit 1 was comprehensive and vigilant at all times. Staff took no exception to Edison's claims. As discussed below, TURN questioned the prudence of the July-August outage. Parties agreed that the reasonableness of the fuel costs incurred pursuant to the January-June outage should be left open pending the Commission's decision on the prudence of direct costs of the steam generation tube resleeving. Since we have now addressed this question in D.82-12-055, the related replacement fuel cost question should be considered in Edison's next reasonableness review.

Edison owned and operated 36 hydroelectric plants which provided an operating capacity of 877 megawatts (MW). These plants produced 3,932 million kWh in 1981. The average unit availability was 94.7% in 1981.

In 1981, Edison purchased record amounts of economy or surplus energy from the Pacific Northwest, Southwest, and California utilities. Total purchased power and interchanges amounted to 18,407 million kWh. Edison asserts that the 1981 purchased power and interchanges resulted in substantial savings from the displacement of oil in its generation system. The staff agreed that purchased and interchange power was less costly than oil and gas generation.

In summary, Edison contends that its energy resource management in 1981 was reasonable, minimized the costs of electricity, and provided safe and reliable service to its customers.

V. Portland Exchange

In the fall of 1978 Edison entered into an exchange agreement with the Portland General Electric Company (Portland). The agreement states that Edison would provide to Portland 225 MW of firm capacity for three months during the winter of 1978-79, and a minimum of 170,000 megawatt-hours (MWh) of energy. Edison actually transmitted to Portland 542,990 MWh of energy at an incremental cost of $13,575,000.

In return, Edison was to receive 225 MW of firm capacity for four months in the summer of 1981, and a total of 1.27 times the total energy taken by Portland under the contract. Thus, Edison was entitled to receive from Portland 1.27 times 542,990 MWh or 689,597 MWh.

In 1981, Portland returned to Edison 498,285 MWh. Portland returned an additional 12,513 MWh in January 1982, leaving 178,800 MWh still owing to Edison. The scope of this proceeding is limited to consideration of the appropriate ratemaking treatment for the energy received in 1981.

Edison accounted for the Portland Exchange in the following manner. In 1978, Edison removed the incremental cost of the energy transmitted to Portland from Account 555, Purchased Power. Edison's incremental cost at that time was 25 mills/kWh, and the incremental cost of the 542,990 MWh transmitted to Portland was $13,575,000. Since this amount was subtracted from Account 555, it was excluded from the ECAC balancing account calculation at that time. As a result, Edison's ratepayers were not charged with the fuel costs associated with producing the 542,990 MWh. Instead, Edison's shareholders bore the cost of this power.

In 1981, Edison valued the 498,285 MWh received from Portland at its then existing incremental cost of 50.1 mills/kWh. Edison booked $24,985,000 in Account 555 for the returned energy. Edison asserts that like all other exchange agreements, it valued the Portland Exchange energy at its presently effective incremental costs. Since the incremental cost increased from 25 mills/kWh in 1978 to 50.1 mills/kWh in 1981, Edison would receive more than twice the amount it expended on fuel.

Staff takes exception to Edison's treatment of the Portland Exchange and recommends an alternate ratemaking treatment. Staff calculates that the 498,285 MWh returned to Edison in 1981 is only 72% of the 689,597 MWh owed by Portland under the agreement. Accordingly, staff would allow Edison to recover only 72% of the $13,575,000 in fuel costs incurred in 1978 to produce the 542,990 MWh sent to Portland. Staff recommends that all energy received by Edison under the Portland Exchange should be valued for ratemaking purposes at the pro rata share of costs actually expended by Edison for production of the energy. Under this method, Edison would be allowed to value the return power only at its 1978 incremental cost of 25 mills/kWh.

In response, Edison contends that the staff recommendation would unfairly impose a loss on its shareholders. This loss would occur because the staff has not considered the financing or carrying costs borne by the shareholders from 1978 to 1981. Edison asserts that its shareholders incurred $4,940,000 in short-term financing costs from 1978 to 1981. Edison points out these carrying costs, which are associated with the $13,575,000 incremental cost of producing energy in 1978, were not included in the working cash allowance adopted by the Commission in its 1979 or its 1981 test year general rate cases. Therefore, Edison asserts that its shareholders financed the production of energy and took on all financing costs from 1978 until Portland fulfilled its return obligation in 1981.

At the very least, Edison maintains it should be allowed to recover the pro rata share of the 1978 expenditures and the related financing costs amounting to $14,749,000. In addition, Edison asks the Commission to permit recovery through ECAC of incremental cost revenues exceeding its direct costs as fair compensation to its shareholders for assuming all risks under the Portland Exchange. Edison argues that its shareholders not only financed the transaction but also bore the risk that Edison's incremental cost in 1981 would be less than its incremental cost in 1978. If this actually had occurred, the return power would have been valued at an amount less than the cost of generating the initial power, and Edison's shareholders could have taken a loss.

Furthermore, Edison argues that if the staff recommendation is adopted, Edison will have no incentive to enter into other exchange agreements which usually benefit the participating utilities and their ratepayers. Under Edison's accounting method, the utility is given an economic incentive to negotiate exchange agreements in the future. Thus, Edison asks that it be allowed to recover the entire $24,985,000 based on its 1981 incremental cost of 50.1 mills/kWh.

After considering the arguments offered by Edison and staff, we find that Edison should be permitted to recover for the 1981 period the pro rata share of the 1978 fuel costs as well as financing expenses amounting to a total of $14,749,000. This result compensates Edison for all direct costs incurred in the Portland Exchange and assures Edison that it will be made whole for any future exchange agreements into which it enters. Our allowance of financing costs removes the disincentive which Edison claimed the staff recommendation would create for future exchange agreements.

The ECAC procedures existing from 1978-1981 as well as the recently adopted ECAC-AER procedure do not provide for economic incentives beyond the AER provision. Edison is entitled to recover all reasonably incurred fuel and purchased power expenses in our offset proceedings. It does not pass on to its shareholders any loss or profit from its fuel or purchased power transactions, apart from the AER provision, if the transaction was prudent and reasonable.

Under past and established ECAC procedures, Edison's shareholders bore no unusual risk of loss from the Portland Exchange. If, the incremental cost had dropped from 1978 to 1981 which Edison alleges was a real risk, Edison still could have applied for the recovery of all reasonably incurred expenses. Before denying recovery of any of those expenses, we would be obliged to find that the Portland Exchange was an imprudent transaction at the time it was entered into. This risk of a Commission finding of imprudent conduct is the only risk Edison and its shareholders faced under ECAC procedures before the AER was created. Apart from the AER, the imprudency test still is the only regulatory risk facing Edison in our ECAC proceedings. Therefore, we find that Edison's shareholders did not bear any extraordinary risk in the Portland Exchange. Accordingly, we will deny Edison's request that its shareholders profit from the Portland Exchange by valuation of the return energy at a higher incremental cost.

We recently increased the AER from 2% to 10% to give Edison a more substantial economic stake in its fuel and purchased power transactions. The AER, however, gives Edison an incentive to minimize costs only in the base year and does not affect transactions beyond the base year. Thus, we recognize that Edison does not have an economic incentive to enter into transactions, like the Portland Exchange, which are not completed within a single base year. At this time, we have removed any disincentives for these transactions. We will consider in the future what steps are necessary to encourage Edison to participate in these long-term transactions which benefit the ratepayer.

VI. Coal Plant Incentives

The Procedure was adopted in D.93363 issued July 22, 1981. The Procedure created incentives for Edison's coal plant operations based upon a set of standards. The adopted standards are gross capacity factors and gross heat rates. If Edison operates its coal plants within a "null zone" around these standards, it will receive dollar-for-dollar recovery of the plants' fuel costs. If a plant's performance is above or below the zone, then a reward or penalty is assessed.

The purpose of the Procedure is to inject meaningful incentives into utility operations. We found in D.93363 that traditional ECAC treatment lacked adequate incentives to minimize Edison's fuel costs. This new Procedure is intended to restore some risk to the utility in the hope that more efficient utility operations will ensue. This proceeding is the first application of our adopted Procedure.

By D.82-03-053 issued March 16, 1982, we modified D.93363 so that the Procedure applies only to 98% of the energy costs recovered through ECAC. We also decided that the gross heat rate standard for the Mohave coal plant should be adjusted based on the results of a long-term performance study to be submitted in an ECAC reasonableness review. In D.93363, we had adopted a standard based upon design gross heat rate curves. In allowing adjustment of the Mohave standard, we did not repudiate the D.93363 standard but simply recognized that further refinement of the gross heat rate standard is warranted.

Not surprisingly, Edison and staff disagree on the interpretation of D.93363, as modified by D.82-03-053 and the application of the Procedure to Edison's coal plants.

Staff asserts that a penalty of $4,335,000 is appropriate based upon the failure of the Mohave plants to meet the D.93363 goals. Staff would apply the Procedure to 100% of the 1981 energy expenses. This is obviously inconsistent with D.82-03-053, which modified D.93363 to provide for application of the incentive procedure to only 98% of the energy costs. Thus, Edison's calculation of a $4,319,000 penalty based on 98% of the energy costs is correct. We will rely upon Edison's calculation rather than the staff's figure.

Edison further argues that the application in 1981 to the Mohave plants of a gross heat rate standard, which the Commission recognized in D.82-03-053 should be adjusted, is unfair. Edison suggests that instead the Mohave plants should be assumed to have met the gross heat rate standard until the long-term study authorized in D.82-03-053 is completed. Edison contends that the gross heat rate standard adopted in D.93363 has never been verified and does not consider current plant conditions. If we assume, as Edison suggests, that the Mohave plants meet the gross heat rate standard, then no penalty will be assessed under the Procedure.

It was our intent in issuing D.93363 and D.82-03-053 to have the coal plant incentive procedure apply to Edison's operation of the Mohave plants in 1981. While the gross heat rate standard for the Mohave plants may be adjusted in the future, we prefer to apply the Procedure now using the D.93363 standard. If, as Edison suggests, the D.93363 standard is shown to be unreasonable when the results of the long-term study are available, we will consider adjustment of the penalty imposed upon Edison in this order. At this time, we will strictly apply the incentive procedure to Edison's Mohave plants and will assess a $4,319,000 penalty.

VII. TURN's Allegations

TURN in its Opening Brief made the following specific recommendations:

1. The Commission should disallow \$4-\$40.8 million in fuel costs incurred by Edison under its 1981 contract with Texaco.
2. The Commission should disallow \$4 million of increased coal costs in 1981 attributable to renegotiation of Edison's contract with Utah International, Inc. (Utah).
3. The Commission should disallow \$18.7 million in replacement fuel costs resulting from the July-August outage at SONGS Unit 1.

We will now consider these issues.

A. Extension of Texaco Contract in 1981

In 1981, Edison purchased 21.9 million barrels of fuel oil. Most of this fuel oil was low-sulfur fuel oil (LSFO) having a maximum 0.25% sulfur content.

About 93% (20.3 million barrels) of the LSFO purchased by Edison was acquired under contracts with Chevron, Pertamina, and Texaco. These contracts were first executed in the 1970s to meet Edison's long-range fuel requirements.

The Texaco contract was entered into on June 1, 1977. Texaco agreed to deliver 4.5 million barrels of LSFO for the period

March 15, 1977 to March 14, 1978. On April 14, 1978, the contract was amended to reduce the annual delivery to 2.4 million barrels. The contract term was extended to March 14, 1981. On February 13, 1981, the contract was further amended to provide for annual delivery of 1.2 million barrels and a contract term extension to March 14, 1982.

TURN asserts that Edison's extension of the Texaco contract on February 13, 1981 was imprudent and unreasonable. TURN argues that since "in February 1981 Edison was aware that large additional volumes of gas would be available...and that at that time it was selling its cheapest oil (Pertamina Low Sulphur Waxy Residue (LSWR): Appendix A), it is very difficult to understand why Edison would voluntarily burden itself with even more LSFO in 1981."

TURN has calculated a range of disallowances to be used if the Commission finds that the contract extension was imprudent. If one assumes that the 1.2 million barrels purchased from Texaco in 1981 after the contract was extended were needed, then the $4 million difference between the price of the Texaco oil and cheaper Pertamina oil, that was available to Edison over the same period of time, is the appropriate disallowance. However, if one finds that the 1.2 million barrels was not needed by Edison and should not have been acquired, then the entire cost of the 1.2 million barrels or $40.8 million should be disallowed. TURN favors disallowance of the entire $40.8 million. TURN would allow Edison to recover in rates a sum equal to the product of the number of barrels of Texaco oil actually burned times Edison's then existing incremental cost. In this way, TURN claims Edison will recover its expenditure only when the Texaco oil is burned.

We do not agree with TURN's characterization of the Texaco contract extension. As explained by Edison's witness, the contract was extended for three reasons:

1. Edison was trying to maintain a number of fuel oil suppliers.
2. The Texaco contract's price seemed favorable at the time.
3. Edison's exemptions from the Fuel Use Act of 1978 were due to expire in October and December 1981.

Extension of the Texaco contract provided Edison with three independent suppliers of LSFO in 1981. TURN alleges that the Texaco deliveries of LSFO were subject to the same disruptions that Pertamina supplies were. Therefore, in TURN's opinion, Texaco was not an additional source of fuel oil. TURN's theory that the Pertamina and Texaco supplies are dependent sources is rebutted in Edison's Reply Brief at page 46 as follows:

> "TURN improperly suggests that Texaco fuel oil and Pertamina LSWR are dependent, substitutable sources. Although Texaco may utilize Indonesian crude oil in the manufacture of product for Edison, everyone should recognize that crude oil is not the same as LSWR. The crude oil is available to Edison by virtue of its exploration and development activities in Indonesia. Texaco's crude oil availability has no direct relationship to production of LSWR by Pertamina. It is the final product, not the crude, that is utilized by Edison, and a shortage of one product would not necessarily result in a shortage of the other."

Edison further notes that Texaco has international sources of crude oil unlike Pertamina.

TURN argues that the recorded prices in 1981 of Texaco LSFO were consistently higher than prices for Pertamina's LSWR. Therefore, TURN maintains that the Texaco contract extension did not provide favorable price terms as alleged by Edison's witness. Edison points out it had no reason to believe at the time the contract was extended that Texaco's prices would be higher than Pertamina's.

Edison maintains that TURN has the benefit of hindsight which was not available to Edison's fuel supply department when the contract was extended. Furthermore, Edison points out that the Texaco LSFO was cheaper than Chevron's LSFO, and the contract extension enabled Edison to reduce more costly Chevron deliveries.

Finally, Edison's witness explained that at the time the Texaco contract was extended, Edison was looking ahead to the possible expiration of its exemptions from the Fuel Use Act. If those exemptions expired, Edison would have been unable to burn some 25 million barrels equivalent of natural gas.

For the above-stated reasons, we find that Edison's extension of its Texaco contract was a prudent and reasonable decision at the time it was made. We reject TURN's recommendation of a disallowance.

B. <u>Renegotiation of Utah Contract</u>

Edison purchases coal under long-term contracts with Peabody Coal Company and Utah. In 1981, the Utah contract was renegotiated due to changes in economic conditions. The renegotiations raised the price of coal paid by Edison by 11¢ per million Btu, or by a total of about $4 million during 1981.

Edison's witness explained that the renegotiation was authorized because all participants in the Utah contract agreed that extreme economic changes had occurred since the contract was first negotiated in 1966. Edison's witness testified that in 1966 inflation was only 2%, while in the 1979-1980 time period when renegotiations took place, inflation was 12%. He further testified that depreciation expenses considered in the base price covered new equipment costs in 1966. That depreciation allowance did not adequately cover replacement equipment costs in 1981. Edison's witness stated that significant costs imposed by new Mine, Health and

Safety, and Reclamation regulations were not foreseen in 1966 when the regulations did not exist. Finally, Edison's witness testified that capital costs associated with opening up additional coal reserves had increased by over 200%. After evaluating these factors, Edison and other participants to the Utah contract concluded that Utah would have received a negative rate of return if the contract was not renegotiated. After renegotiation, Edison projects Utah's rate of return to be 15%, consistent with the rates of return earned by similar coal mining companies.

Through cross-examination and its opening and closing briefs, TURN questions the prudence of the renegotiation of the contract. TURN asserts that part of the additional cost of coal to Edison is unrelated to inflation, but rather to an investment by Utah International in Mining Area 3. According to TURN's analysis, Edison would be required to pay 8.5¢ of the 11¢ per million Btu increase in price even if no inflation occurred. TURN believes that the inclusion of a take or pay clause and a clause ensuring a "fair and reasonable" rate of return for Utah International in the renegotiated contract provides additional evidence that the renegotiation is not justified on the basis of changes in the economy. Finally, TURN asserts that in general Edison did not drive a hard enough bargain because it chose not to arbitrate the matter as the original contract permits, and because Edison received no consideration for the concessions it made to Utah International.

We note that staff's analyses of the contracted coal price do not adequately address the question of whether or not Edison's decisions regarding the renegotiation were good ones. Those analyses compared the price Edison paid for coal in 1981 with average steam coal prices in the west, and compared the cost of coal-fired generation on the Edison system with the cost of oil-fired generation. It is the responsibility of the utility to seek the lowest cost supply options available to it. If Edison lost a low cost source of coal because it did not drive a hard enough bargain, then Edison acted imprudently, regardless of the comparability of the resulting price.

TURN has raised several issues of concern for which Edison's explanations are not completely satisfactory. However, the evidence in this record is not adequate to determine conclusively whether a disallowance should be made, nor, if so, what the level of disallowance should be. Accordingly, we will provide that this matter be subject to further review in Edison's next reasonableness proceedings.

C. SONGS Unit 1 July-August Outage

TURN has focused upon the second of three major outages at SONGS Unit 1. This outage occurred from July-August 1981 and was caused by a diesel generator fire. The replacement power cost of this outage was estimated by Edison to be $18.7 million.

TURN submits that the outage is due to Edison's negligent operation of SONGS Unit 1. TURN asks the Commission to disallow the $18.7 million due to Edison's alleged negligence.

TURN bases its position upon documentation obtained from the Nuclear Regulatory Commission (NRC) on the cause of the diesel fire. According to NRC documents, the diesel fire was caused by "fatigue cracking" of a brass fitting in the lube oil system. Oil leaking from the cracked fitting ignited when it reached a hot diesel generator component. This instrument failure was traced to an unauthorized modification to the safety-related equipment of the diesel generator. The modification is considered unauthorized because it did not conform to the design specifications or the construction specifications for the equipment.

TURN argues that based on the above facts, the Commission should find Edison negligent as a matter of law. TURN asserts that Edison's failure to abide by the applicable design criteria and codes should be measured by the tort concept of negligence per se. Under this theory, a finding of negligence and legal liability occurs without consideration of the particular surrounding circumstances because it can be said the action is so clearly violative of standards of care that no reasonable person could have acted in that manner. Thus, TURN asserts that Edison's failure to comply with the diesel equipment's design standards should automatically result in a finding of imprudence without any further inquiry into the circumstances of the accident.

Edison responds that TURN would hold Edison to a standard of reliability that is identical to the NRC's safety standards. Edison argues that equipment reliability standards cannot be equated to the NRC's safety standards.

We cannot agree with TURN that Edison is negligent per se. Our regulatory standard for prudent utility behavior does not require the utility to operate its plants without mishap or error. All that has been shown on this record is that Edison's personnel at SONGS Unit 1 made a modification to one diesel generator that did not meet design requirements. This deviation and the resulting outage proved to be very costly. However, we are not prepared to find Edison imprudent on these facts alone.

Although we do not find imprudence shown in this record by TURN, we are left with several unanswered questions about the outage. We do not know why Edison's personnel made the modification to the diesel generator which caused the fire. We do not know what the proper method is for locating and repairing an oil leak at a diesel generator. The length of the outage, one month, is not adequately explained by an eight-minute fire which Edison claims resulted in minimal damage to the diesel generator. We are unsure whether the length of the outage was extended by repair work or NRC requirement. In short, we are not satisfied with the record developed in this proceeding regarding the diesel fire outage. We will direct Edison to make a further showing on this outage at the next reasonableness review proceeding. We also will direct our staff to make further inquiry into the cause of the diesel generator fire and to offer an independent position on the reasonableness of the outage. This reasonableness issue remains open; no party is foreclosed from delving into the circumstances of this outage at the next reasonableness review proceeding.

VIII. Power Pooling Monitoring System

The CEC recommends that we increase our review of Edison's power pooling transactions in the annual reasonableness review proceedings. Specifically, the CEC advocates institution of a computerized system to monitor Edison's unit commitment, economy energy transactions, and coordinated maintenance efforts.

The CEC contends that Edison currently does not keep adequate records on its power pooling opportunities. Consequently, the CEC claims that parties are unable to review the reasonableness of Edison's power pooling activities since the necessary data are not available.

The CEC points out that power pooling reduces fuel costs and creates substantial savings for the ratepayers. The CEC argues that a more extensive review of power pooling in the annual reasonableness proceedings is appropriate since the Commission can disallow lost savings attributable to power pooling opportunities Edison should have entered into. The CEC submits that such a reasonableness review of Edison's power pooling transactions is not possible unless the Commission revises Edison's present data reporting requirements.

Edison submits that an ECAC proceeding is not the appropriate forum for the discussion of a computer monitoring system and the ongoing data submission recommended by the CEC. Edison points out that it already is working out with the Commission staff the details of a revised data submission for ECAC proceedings. Edison believes that an informal arrangement with the Commission staff will eliminate any need for a formal Commission order.

In addition, Edison argues that a cost benefit analysis of the CEC's proposal should be made before Edison is ordered to institute a computerized monitoring system. Until the costs and benefits of the proposed system are quantified, Edison contends that a Commission order endorsing the proposed system would be premature.

Staff did not analyze the CEC's proposal in detail. However, staff recommends approval of the CEC's proposal since it would help staff evaluate Edison's purchased power transactions.

We find merit in the CEC's proposal and will order Edison to arrange with our staff institution of a computerized monitoring system. The CEC staff also should be allowed to participate and contribute suggestions.

We are simply giving formal recognition to a process that already is underway between Edison and our staff. The potential of a computerized monitoring system for improving our evaluation of power pooling is considerable. At the same time, the burden upon Edison appears small since some of the information sought on unit commitment, economy energy transactions, and coordinated maintenance already is generated by Edison and can be easily provided.

We agree with Edison that increased monitoring of power pooling eventually should extend to all regulated electric utilities in California, not just Edison. However, we are persuaded by the CEC's showing in this proceeding that more extensive and systematic review of Edison's power pooling efforts should begin now.

IX. Provisional Underlifts

During 1981 Edison paid $12,200,000 in provisional underlifts to Chevron. Of this amount, $6,573,000 was paid from January 1 to October 20, 1981, the period prior to adoption of an AER for Edison. Consequently, $6,573,000 of the underlift payments is included in the ECAC balancing account for 1981.

The staff recommended that the $6,573,000 and $297,000 related interest should be excluded from the ECAC balance until Edison demonstrates that the underlift payments cannot be recovered from Chevron.

Edison recommends that the payments continue to be carried in the ECAC balancing account, with interest, until the final amounts are determined through negotiation or litigation. Edison claims that the amount of the underlift payments may be adjusted and that there is no reason to exclude the payments from the balancing account at this time.

We are not persuaded that the underlift payments should be excluded from the balancing account now. Edison appears to be pursuing every available means of recovering the underlift payments from Chevron. Edison has made the underlift payments to Chevron. Until staff or any other party suggests that Edison was imprudent in paying these underlift fees or that Edison is not diligently seeking recovery from Chevron, we can find no basis for the exclusion of these payments from the balancing account.

Findings of Fact

1. By A.82-03-04, Edison requests authority to revise its ECAC billing factors and AER.

2. The AER has been revised to reflect the rate of return adopted in Edison's general rate decision in A.61138, D.82-12-055.

3. Edison entered into an exchange agreement with Portland in 1978.

4. Edison transmitted 542,990 MWh to Portland in 1978 and received 498,285 MWh from Portland in 1981.

5. Edison's incremental cost in 1978 to generate the 542,990 MWh sent to Portland was $13,575,000.

6. The $13,575,000 incremental cost was not included in the ECAC balancing account from 1978 to 1981.

7. Edison's shareholders incurred short-term financing costs of $4,940,000 from 1978 to 1981 since the incremental cost of the Portland Exchange was not included in the ECAC balancing account.

8. Edison's shareholders should recover the incremental cost and the financing cost of the Portland Exchange if the agreement was a reasonable and prudent transaction at the time it was entered into.

9. No party has argued that Edison's exchange agreement with Portland was imprudent.

10. The Portland Exchange proved to be beneficial to Edison and its ratepayers.

11. The Portland Exchange was a reasonable and prudent transaction at the time it was entered into.

12. Edison's shareholders bore no extraordinary risk in financing the Portland Exchange from 1978 to 1981; Edison's shareholders bore only the risk that the Commission might find the exchange agreement to be an imprudent transaction.

13. Energy received by Edison from Portland in 1981 should be valued at the pro rata share of costs actually expended by Edison, plus financing costs.

14. The Commission adopted a Procedure in D.93363 issued July 22, 1981.

15. On March 16, 1982, the Commission modified D.93363 to provide that the Procedure shall apply to only 98% of energy costs recovered through ECAC.

16. A penalty of $4,319,000 is calculated under the Procedure because Edison's Mohave plants did not meet the stated performance goals in 1981.

17. Edison requests that application of the Procedure to the Mohave plants be deferred until a long-term study on gross heat rates at the Mohave plants is completed.

18. Deferral is not appropriate since the gross heat rate standard currently used in the Procedure has not been shown to be unreasonable.

19. A penalty of $4,319,000 is appropriate since Edison's Mohave plants did not meet in 1981 the performance goals stated in the Procedure.

20. Edison entered into a long-term fuel oil supply contract with Texaco on June 1, 1977.

21. Edison extended the Texaco contract several times; on February 13, 1981, Edison extended the contract to March 14, 1982.

22. At the time Edison extended the Texaco contract, the contract price appeared favorable.

23. At the time Edison extended the Texaco contract, Texaco was an additional source of LSFO for Edison's generation system.

24. Edison's extension of the Texaco contract was reasonable at the time.

25. Edison renegotiated its coal supply agreement with Utah in 1981.

26. The renegotiated agreement raised the price of coal.

27. Renegotiation of the agreement was initiated because of extreme economic changes which produced a negative rate of return for Utah.

28. The reasonableness of the increased coal costs due to Edison's renegotiation of the Utah agreement should be examined further in Edison's next annual reasonableness proceeding.

29. An outage at SONGS Unit 1 occurred from July-August 1981.

30. The outage was due to a diesel generator fire.

31. The fire was caused by an unauthorized modification to the safety-related equipment of the diesel generator.

32. At the time the fire occurred, Edison was in the process of inspecting the diesel generators.

33. Edison's personnel responded to the fire promptly and minimized damage to the diesel generator.

34. Edison has upgraded its inspection procedures to ensure that a similar outage does not occur again.

35. Edison has not adequately explained the reasons for the July-August, 1981 outage at SONGS Unit 1.

36. The staff and other parties are unable to thoroughly review the reasonableness of Edison's power pooling activities without access to the relevant data.

37. The relevant data currently are not compiled in a systematic manner and provided to our staff by Edison. .

38. The CEC's proposed computerized monitoring system will provide the staff and other parties with the relevant data needed to review the reasonableness of Edison's power pooling activities.

39. Institution of a computerized system to monitor unit commitment, economy energy transactions, and coordinated maintenance will not impose an undue burden on Edison and should ease the workload carried by our staff.

40. Staff has made no recommendation on the replacement power costs caused by the sleeving repair outage at SONGS Unit 1.

41. The issue of replacement power costs should be examined in Edison's next annual reasonableness proceeding.

42. The staff accountant has recommended that provisional underlifts paid by Edison to Chevron from January 1 through October 20, 1981 should be excluded from the ECAC balancing account until Edison demonstrates that these provisional underlifts cannot be recovered from Chevron.

43. The provisional underlifts should not be excluded from the ECAC balancing account until the reasonableness of these payments is determined in a later proceeding.

44. In view of the delay beyond the revision date, this order should be effective today.

Conclusions of Law

1. The reasonableness of replacement power costs at SONGS Unit 1 due to the diesel generator fire in July-August 1981 should be determined in the next reasonableness proceeding.

2. The reasonableness of replacement power costs due to the sleeving outage should be examined in the next reasonableness proceeding.

3. Provisional underlifts paid in 1981 should be examined when the final payments to Chevron are determined and the reasonableness of such payments may be examined.

4. If the long-term study of a gross heat rate standard for the Mohave units shows the adopted standard to be clearly unreasonable, we will consider adjustment of the penalty imposed in this order.

5. The reasonableness of the increased coal costs due to Edison's renegotiation of the Utah agreement should be examined in the next reasonableness proceeding.

FINAL ORDER

IT IS ORDERED that:

1. Southern California Edison Company (Edison) shall value energy received under the 1978-1982 Exchange Agreement with Portland General Electric Company at the pro rata share of costs actually expended by Edison to transmit power to Portland General Electric Company plus all financing or carrying costs. Edison shall exclude all amounts exceeding these direct costs from the Energy Cost Adjustment Clause (ECAC) balancing account.

2. A penalty of $4,319,000 is imposed under the Coal Plant Incentive Procedure due to the performance of the Mohave plants. Edison shall enter this amount in the ECAC balancing account as a penalty adjustment.

3. Edison shall institute with the Commission staff and the California Energy Commission staff a computerized system to monitor unit commitment, economy energy transactions, and coordinated maintenance. Edison shall provide any other data on power pooling transactions which the Commission staff deems to be necessary.

4. The balancing account is subject to further review and possible adjustment pending the resolution of replacement power costs at SONGS Unit 1, a complete evaluation of provisional underlift payments to Chevron, further examination of Edison's contract renegotiation with Utah International, and the submittal of the long-term study on a gross heat rate standard for the Mohave plants.

This order is effective today.

Dated JAN 19 1983, at San Francisco, California.

LEONARD M. GRIMES, JR.
President
PRISCILLA C. GREW
DONALD VIAL
Commissioners

Commissioner Victor Calvo, being necessarily absent, did not participate

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

Joseph E. Bodovitz

Joseph E. Bodovitz, Executive Director