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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 Modify its Energy Cost Adjustment Clause to Decrease its Energy Cost Adjustment Billing Factors and to Increase its Annual Energy Rate in Accordance With Commission Decision No. 82-12-105; to Maintain its Presently Effective Catalina Energy Cost Balance Adjustment Billing Factor; to Increase the Steel Surcharge Adjustment Billing Factor; to Increase the Electric Revenue Adjustment Billing Factor; to Make Certain Changes to its Offset Tariffs and Procedures Which May at Some Date Result in Rate Level Changes; and to Review the Reasonableness of Edison's Operations in 1982 and Certain Reasonableness Issues Related to Commission Decision No. 83-01-053.	Application 83-03-36 (Filed March 10, 1983)
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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Freda Abbott, Attorney at Law, and Jeff O'Donnell, for the Commission staff.

INTERIM OPINION

I. INTRODUCTION

By Application (A.) 83-03-036 filed March 10, 1983, Southern California Edison Company (Edison) requests authority to reduce its rates by $48.6 million and to make certain tariff changes. The rate reduction is the net result of a proposed Energy Cost Adjustment Billing Factor (ECABF) reduction of $190 million, an Annual Energy Rate (AER) increase of $104.8 million, Steel Surcharge Adjustment Billing Factor (SSABF) increase of $18.1 million, and an Electric Revenue Adjustment Billing Factor (ERABF) increase of $18.5 million. This proceeding is also the annual Energy Cost Adjustment Clause (ECAC) reasonableness review for Edison.

Following 14 days of public hearings, this matter was submitted in two stages: oral argument on forecast issues that relate to the calculation of rate factors, and written briefs on the reasonableness issues that may be resolved by adjustment to the balancing account. In this decision we address the forecast issues.

II. BACKGROUND

By Decision (D.) 82-12-105 the Commission modified the ECAC procedure as applied to Edison to provide for ECAC recovery of only 90% of net fuel and purchased power costs, instead of 98%. The remaining 10% is recovered through the AER. In this proceeding we complete the transition from the 2% to the 10% AER.

By D.83-02-076 the Commission adopted certain further modifications to ECAC procedures. Although those changes do not yet apply to Edison, some of those policy considerations are reflected in this decision.

III. SUMMARY

By this decision Edison is ordered to implement rate reductions of $147.0 million. The reduction is the net effect of an ECAC reduction of $261.9 million and AER and ERAM increases. The lifeline rate is reduced by about 3.4%. The domestic nonlifeline rate is reduced by about 4.0%.

The ECAC revenue requirement is derived based on Edison's estimates of hydro, purchased power, and gas costs, adjusted to reflect purchased power available on episode days. The ECABF is based on a 12-month forecast period and 12-month amortization of the balancing account.

IV. RATE STABILIZATION

During the course of the proceeding various information was updated, resulting in a net larger reduction that could be implemented. Instead, Edison proposed that the Commission limit the

reduction that will result from this application to the $48.6 million originally proposed in its application, with the balance to be preserved while the Commission examines rate stabilization.

Edison points out that over the next two years it anticipates several major increases in base rates, reflecting San Onofre Units 2 and 3, the 1984 attrition allowance, Palo Verde Unit 1, and the next general rate case. Edison estimates a net impact of $1.25 billion from these increases, assuming no changes in ECAC rates due to increases or decreases in fuel and purchased power expense other than that realized due to a return to average year hydro availability and use of current cost levels.

Edison warns that any reductions in ECAC rates that are of a temporary nature would only serve to exacerbate the rate impacts on Edison's customers, since rate levels must be increased at such time as overcollections in the ECAC balancing account are amortized. Edison suggests that one way to mitigate the sudden and volatile impact on rates of the total revenue requirement would be to blend rate increases and decreases, so that the resulting rates to customers would change in a more gradual fashion than they would under traditional ratemaking.

Edison offers a Deferred Revenue Recovery Plan that would consolidate the effects of all changes in rates resulting from Edison's rate-related matters before the Commission into two semiannual rate changes each year through 1986. Edison proposes that an increase ranging from 5 to 10% would be authorized semiannually to coincide with ECAC revision dates. Edison intends that Commission consideration of all rate change applications and authorization of such changes would follow traditional procedures and timing, with base rate increases offset by an equal ECAC rate decrease so that there would be no net change in the total rate level. Any revenue

requirement amount associated with the change that exceeds the projected fuel savings would accrue in the ECAC balancing account. General rate cases would follow the two-year Rate Case Plan cycle authorized by D.82-12-072 and be offset on the effective date of the Commission order authorizing such increases. Revenue requirements changes authorized in the major adjustments to rate base type proceedings would be incorporated in the Plan on the effective date of such decisions. Similarly, all other offsets to authorized changes in rates that do not coincide with the semiannual rate increases would accumulate in the ECAC balancing account.

Edison states that it raised this issue in this proceeding because of the opportunity that exists at this time before a large ECAC reduction is granted. Edison suggests that the Commission consider abbreviated additional hearings or generic proceedings to examine the issues.

The Commission staff (Staff) objected to the introduction of Edison's rate stabilization testimony on the basis that Staff had not had sufficient opportunity to analyze Edison's proposal and offer its own alternatives. Staff asked for an opportunity to address rate stabilization again in about a month, after further reviewing Edison's showing.

Toward Utility Rate Normalization (TURN) strongly objects to rate stabilization. TURN contends that it would be entirely inappropriate for the Commission to delay the rate reductions that are in order, in light of the large overcollection in the ECAC balancing account. TURN argues that there are no benefits to such a plan and suggests that Edison is motivated by cash flow considerations.

The California Manufacturers Association (CMA) also opposes the implementation of rate stabilization in this proceeding. CMA states that each case should be decided on its own merits and

warns that if stabilization is allowed to become a part of each case, then matters become much more complex with many uncertainties introduced. CMA suggests that the ratepayers should be warned of the risk of large rate increases and allowed to manage their own money in order to provide the means to pay.

Rate stabilization is a term used frequently in Commission proceedings. Stabilization has been a consideration in resolving such matters as the frequency of ECAC revisions and the appropriate balancing account amortization period, as well as scheduling base rate and offset rate changes. We consider stabilization an important factor that should be publicly discussed as it was in this case, and we have no objection to Edison raising the issue in the record in this proceeding.

However, we are not inclined to undertake stabilization on the scale proposed by Edison in this proceeding. We find the benefits of rate stabilization as proposed here are insufficient to offset the negative impacts that might result.

Several of the matters included by Edison in its overview of rate impacts are highly controversial. We are concerned that the type of stabilization proposed by Edison would distract the public's attention from the merits of such proceedings and direct it instead to stabilization, particularly since the first large increase would occur while the overcollection in the ECAC balancing account was the highest ever.

V. ECAC AND AER ISSUES

A. Introduction

In light of their reciprocal relationship, ECAC and AER issues are reasonably addressed together, depending on the resolution of a single issue: the forecast period.

The ECABF has been calculated based on a 4-month forecast period. The AER has been calculated based on a 12-month forecast period. Edison proposes to use a 12-month forecast period for both calculations. Staff proposes that the ECAC calculation remain on a 4-month basis. If both the AER and the ECABF are calculated on a 12-month basis, the same forecast is used for both. If the 4-month period is used for the ECABF calculation, then two different forecasts are necessary.

The 4-month forecast period allows for greater certainty regarding the accuracy of the estimates. Depending on the specific conditions, use of the 4-month period can produce higher or lower rates than use of the 12-month period. In this instance use of the 4-month period for calculation of the ECABF would result in a larger rate reduction because of the known outlook for hydro and purchased power for the 4-month period compared to the 12-month outlook. According to Exhibit 61 (revised), Edison calculates a net reduction of $121.2 million on a 12-month basis, while staff calculates a net reduction of $222.4 million. Using 4 months' data, Edison's reduction would be $301.5 million, while Staff's would be $360.3 million.

Although there are some advantages to the use of the 4-month period, we adopt the 12-month period for both the ECAC and AER calculations in this proceeding. The 12-month period was adopted in D.83-02-076 as the basis for ECAC filings under the modified procedure. We see no reason to delay its implementation.

The 4-month forecast period does allow rates to reflect seasonal changes in costs. However, the amortization of a large balancing account balance distorts the effect of seasonal variations. The most likely result of the use of the 4-month period is simply more frequent and larger rate changes.

B. Hydro Production

Edison estimates that 5684 gigawatt hours (GWH) will be produced by hydroelectric generation during the test period. Staff

estimates that 6042 GWH will be produced. CMA supports Staff's position.

Edison states that its estimates are based on all-time record runoff levels for a full water year that impacts Edison's hydroelectric generation, 245% above average year conditions. For May, June, and July in the forecast period Edison's largest hydro system is forecast to operate at 100% capacity factors, so that no further increase is possible. In August of the forecast period Edison forecasts a 92% capacity factor, signifying full operation of the units in the early parts of the month, and reduced levels in the later part of the month due to reduced in-flows to those units.

The new water year for Edison begins in October. Edison argues that runoff cannot be predicted in the new water year except by looking at average year conditions, because weather affects water runoff levels so much. Edison claims that its average year hydro production assumptions are based on 108 years of historical data. The production levels Edison assumes for October, November, and December are based in part upon average year assumptions. However, the production levels forecast by Edison for these months are greater than the average year levels in recognition of the impact of an above-average runoff in the early part of the new water year resulting from high levels of snowpack. The average year precipitation assumed in the new water year starting October 1, 1983, results in Edison's estimate of near normal production levels starting in January, 1984.

Staff's estimate is derived by ratioing Edison's original forecast by a factor of 10 over 9. This adjustment was made to reflect staff's opinion that the abundant rainfall and snowpack should provide the energy equivalent to the 1982-83 AER period. Staff argues that the end of the water year is a very convenient means of assessing hydro availability, but the weather does not recognize such fine distinctions. Staff observes drily that the water runoff and snow melt don't change between September 30th and October 1st.

Staff also cites with approval the testimony of Robert Burt of CMA regarding weather cycles and the prospect that this summer will be relatively cool, while the next year will also be relatively wet. Based on such evidence, CMA characterizes the Staff recommendation as conservative, and recommends that it be adopted.

CMA also expresses reservations regarding the concept of the AER. CMA points out that the parties are arguing about extremely variable numbers that are impossible to know and about which very large differences of opinion may exist among reasonable men. CMA states that recommendations may be supported more vigorously when a balancing account corrects any error. It suggests that the Commission should consider whether to reduce the AER percentage.

Edison points out that Staff's assumptions reflect greater production than is possible in the months of May, June, and July of the forecast period.

We are satisfied that Edison's estimate is reasonable and should be adopted. The adjusted average year data is more reliable for purposes of this proceeding.

We don't mean to demean CMA's evidence regarding climate and the prospect for another wet year. The point of average year ratemaking methods is that estimated results equal recorded results over time. To the extent that we depart from average year concepts to forecast a wet year, we also have to be prepared to forecast a dry year. By forecasting the weather we take the risk that estimated results will never equal recorded results. Thus we adopt Edison's adjusted average year data.

Edison has recognized the residual effect of the remaining snowpack by its adjustments to October, November, and December data. Thereafter, average year data is reasonably used, because there is no evidence in the record to indicate any substantial above average runoff into the 1984 calendar year.

C. Purchased Power

Edison estimates that 14,819 GWH will be provided by purchased power. Staff estimates that 17,197 GWH will be supplied by purchased power. CMA supports Staff's position.

Edison states that 1983 purchases during the AER period are expected to be slightly lower than 1982 record levels because Edison is forecast to be experiencing minimum load conditions much more often in 1983 than it did in 1982. Further, Edison claims its updated filing results in full use of Edison's available transmission capability, while during the AER forecast period Edison does not expect to have the ability to use the unused portion of the Pacific Intertie owned by other entities, as it did in 1982.

Staff derived its estimate of purchased power by ratioing Edison's original forecast by a factor of 33 over 27. Staff asserts that expected hydro availability in the Northwest frees up additional purchased power from the Northwest and also the Southwest. Staff states that Edison is projecting that the amount of power it will purchase is only about 66% of the amount it received during the calendar year 1982, while the Staff's estimate is about 76% of the 1982 recorded. Staff argues that due to the increased availability of hydro in the Northwest and because of the upgrading of the transmission lines from the Northwest, there is no reason for the major distinctions that Edison makes between 1982 and the forecast period.

CMA makes the same points regarding purchased power that it makes relative to hydro. It characterizes the Staff positions as conservative.

Edison states that Staff's method implies purchases from the Pacific Southwest that would exceed the all-time record purchases by 17%.

Edison has established that its estimates were reasonable at the time they were made. Again we state our preference for average year ratemaking methods for such matters as purchased power and hydro. The Staff method puts too much emphasis on the previous year's recorded data.

Edison has made an effective showing regarding system load conditions and Pacific Northwest transmission limitations. However, an adjustment to its purchased power estimates is nevertheless necessary in order to reflect gas rate design implications, as discussed below.

D. Gas Costs

By D.83-05-056 issued May 18, 1983, the Commission adopted new rates applicable to gas sales by Southern California Gas Company to Edison. This decision provides for two different rates, depending on when gas is served. On non-episode days the gas rate is indexed to the spot price of low sulfur waxy residue (LSWR) with the index set at 48¢ per therm, and a floor of 41.196¢ per therm. On episode days (days when electric utility generating stations located in the South Coast Air Quality Management District are required to burn all available gas) the gas rate is 56.656¢ per therm. Edison was allowed to file a late-filed exhibit setting forth its estimate of gas costs for the forecast period, and staff was allowed to file a reply exhibit. The estimates vary in the amount of the gas burned (a function of the differences in purchased power and hydro estimates), the projected non-episode day rate over the forecast period, and the number of episode days.

On June 14, 1983, Edison filed a petition to set aside submission and reopen proceedings for the purpose of taking additional evidence on the issue of the appropriate gas price to be used for calculating the ECABF and AER. Specifically Edison requests that additional evidence be taken on the non-episode day rate estimated to be in effect over the 12-month forecast period and the number of episode days forecast to occur over the 12-month period.

In support of its petition Edison states that it projected the price of non-episode day gas based on its projection of the spot cargo prices estimated to be in effect for LSWR in Singapore during the 12-month forecast, while Staff used a constant price of 42.507¢

per therm over the period. The difference in estimated rates results in a difference in expenses of about $77.6 million over the 12-month period. With regard to episode days, Edison estimated 100 episode days during the 12-month forecast period, while Staff assumed 80 days. The difference in estimated episode days results in a difference in expenses of about $15.9 million.

Edison argues that these issues should be examined further because 10% of the differences (about $9.4 million) is subject to the AER, which is not subject to future adjustment. Edison contends that the AER can only serve the Commission's intent of providing an incentive to the utility to manage fuel costs to the extent it is based on reasonable estimates of expenses over the AER period. Edison asserts that it should have the opportunity to present evidence to show the reasonableness of its estimates and the invalidity of Staff's.

In its reply filed June 23, 1983, Staff points out that its estimates are derived from D.83-05-056. Staff argues that to the extent Edison proposes to use different figures from those adopted in D.83-05-056, it should be seeking rehearing of D.83-05-056.

Staff also argues that additional hearings as proposed by Edison would require several months for analysis and development. Staff proposes instead that the number of episode days be reviewed in Edison's next AER proceeding. Staff suggests that the AER set in this decision be designated for adjustment in that proceeding if necessary.

While Staff has reasonably based its estimates on the figures adopted in D. 83-05-056, we are persuaded that those figures are not entirely reliable for purposes of this proceeding. Those estimates were used for calculating the amount of revenue the GN-5 rates would generate, not for setting the rate. Therefore Edison would have no claim in that proceeding that the figures were

unreasonable. It is not until the estimates are applied in this case that Edison has a stake in the accuracy of the assumptions. Staff as much as admits the inadequacy of the data in the earlier case when it states that reopening this matter would not be necessary if it had already been done in conjunction with D.83-05-056.

In view of the impact on Edison, our choice is either to reopen this proceeding or to adopt Edison's estimates. Upon examining the material submitted by Edison we are satisfied that it has reasonably projected the gas rate applicable to non-episode days, as well as the number of episode days. We adopt Edison's estimates. Therefore reopening is not necessary.

However, we find that Edison has not fully analyzed the implications of the episode day gas rate adopted in D.83-05-056. The relatively high price that Edison will pay for gas on such days means that Edison can pay more than otherwise for purchased power. This point is made by Edison's own witness, testifying with regard to purchased power generally:

> "Well there are really two factors which relate to it (the amount of purchased power). One is the price of power available...from our neighboring utilities, San Diego and Pacific Gas and Electric (PG&E), and the other is availability.
>
> "Early on this year the price of gas to Edison was $5.50 per million Btu, which was substantially higher than PG&E's prices, and resulted in a large amount of transactions...
>
> "If you have a large price difference, then, naturally, the utility that has a higher price would tend to buy more. We were the ones with a higher price, so we were buying a lot more from PG&E this year than we would have the previous year, as an example.
>
> "The second factor is that this has been a record hydro year for PG&E, and they have had large amounts of surplus power available to them that they have been selling to us.

> "So it was a combination of availability and price in 1983 that led to a substantial increase in activity, as far as our purchases from California utilities is concerned."

Since the price relationship will be reestablished on episode days, and the high levels of hydro will continue through the summer when episode days are most likely, we find that Edison has overstated the volumes of gas that it will buy at the higher rate, and understated the amount of purchased power that is likely to be available from such sources as PG&E and SDG&E and that are not constrained by transmission limitations.

Neither Edison nor Staff offered any estimate of the amount of additional purchased power related to the episode day rate. However, based on Edison's estimates of purchased power during the summer months and the recorded purchases for the early part of 1983, we find that the Staff estimate of episode day gas costs is reasonable. Therefore we reduce Edison's estimate of gas costs by $15.9 million.

Late in the proceeding Edison revised its estimate of gas costs to reflect the additional gas burn required by the continued outage of San Onofre Nuclear Generating Station No. 1 (SONGS 1). TURN objected to Edison being allowed to offer this information, arguing that Edison withheld information until the end of the case. TURN contends that the delay in operation of SONGS 1 may be related to Edison's unwillingness to accede to requests of Nuclear Regulatory Commission staff and perhaps unreasonably delay the restart of the facility. TURN states that inclusion of the updated SONGS 1 data would amount to a decision on the merits regarding the reasonableness of Edison's actions. TURN warns that if the one-year delay in the operation of SONGS 1 is subsequently shown to be unreasonable, only 90% of replacement fuel costs could be disallowed because of the AER.

Edison responds that it did not deliberately withhold any information regarding SONGS 1. Edison argues that the impact of the

AER requires that it be allowed to present the latest available information. Edison states that the reasonableness of its actions with respect to SONGS 1 are subject to review in this proceeding for 1982 and will be a subject of next year's annual review proceeding for 1983.

We agree that Edison was properly allowed to update its showing. TURN has not shown that Edison deliberately withheld information or that there is any prejudice to the ratepayer from the late amendment other than the higher energy costs, which would have been the same if there had been an earlier amendment. We are satisfied that the interest of the ratepayer is sufficiently protected by the review process. TURN's proposal would foreclose the utility from ever recovering 10% of the replacement fuel costs if Edison's actions were found to be reasonable.

E. Balancing Account Amortization

Edison and Staff agree that 12-month amortization of the overcollection in the balancing account is reasonable in this instance. Staff goes further and proposes that 12 months' amortization be established as the rule to be applied in every instance. CMA supports Staff. Edison argues that the Commission should retain flexibility to adopt an amortization period that reflects circumstances existing at the time rate levels are set.

Staff states that ECAC rates should always be set as accurately as possible and that the amortization period should not be changed based on the range of over or undercollections. Staff contends that the amortization period should not be used to normalize variations in fuel costs, and that the amortization of the balancing account should not be based on rate stabilization.

Edison warns that such a policy will only operate to ensure that the balancing account balance will not approach zero. Edison states that the rate levels will be set on a 12-month basis, and then

changed every four to six months. If the rates are changed every four to six months and the balance in the balancing account is amortized over a 12-month period every time there is a rate change, the balances will never be amortized.

We see no reason to depart from the flexibility of the current procedure. Although 12-month amortization may be generally reasonable, we can envision circumstances when a longer or shorter period may be appropriate. We do consider rate stabilization a legitimate consideration in deciding the appropriate amortization period.

F. Revenue Requirement

Based on the foregoing discussion the adopted ECAC adjustment rate calculation is shown in Table 1. The present average ECAC rate is 3.477¢ per kWh. The adopted average ECAC rate is 2.989¢ per kWh. Based on adopted sales, the amortized ECAC revenue effect is a reduction of $261.9 million.

TABLE 1

SOUTHERN CALIFORNIA EDISON COMPANY

Revised Calculation of the Average Energy Cost Adjustment Rate
For a May 1, 1983 Revision Date
Based on Twelve Months' Expense
($000)

Item	Forecast Period Expense
Oil	$ 6,687
Gas	1,755,629
Coal	103,841
Nuclear	5,629
Geothermal	-
Purchased Power	501,849
Mono Power Company Fuel Service Charge	12,840
Subtotal	2,386,476
Less: Revenue from Off-System Transactions	28,860
Less: Revenue from Sales of CDWR & APPA	4,381
Total Fuel and Purchased Power Costs	2,353,234
Costs Associated with Fuel Oil Inventory	90,914
Facilities Charges	10,357
Underlift Payments	-
Gains or Losses on the Sale of Fuel Oil	-
Less: Economic Dispatch Adjustment	9,452
Less: Episode Day Adjustment	15,900
Total Fuel and Purchased Power and Other Costs	2,429,153

(Continued)

TABLE 1
(Continued)

Item	Forecast Period Generation M kWh	Expense $M	Sales M kWh	Rate ¢/kWh
Total System	62,862	$2,429,153	-	
Less: Resale (Included Above)	4,195 1/	162,106		
Total Subject to ECABF	58,667	2,267,047	53,683	
Less: 10% of Fuel, Purchased Power and Other Energy Costs Recovered in the Annual Energy Rate		226,705		
Subtotal		2,040,342		
Plus: Franchise Fees and Uncollectible Accounts Expense		20,870 2/		
Average Fuel and Purchased Power Rate		2,061,212	53,659 3/	3.841
AVERAGE BALANCING RATE				
Estimated Balance in the Energy Cost Adjustment Account on May 1, 1983		(452,298)		
Plus: Franchise Fees and Uncollectible Accounts Expense		(4,626) 2/		
Average Balancing Rate		(456,924)	53,659 3/	(0.852)
AVERAGE ENERGY COST ADJUSTMENT RATE (Red Figure)				2.989

1/ Based on Resale Generation to Sales Loss Factor of 1.26% derived from D.82-12-055.
2/ Based on the rate of 1.0125 derived from D.82-12-055.
3/ Adjusted 24 M kWh for Schedule DE discount.

The adopted AER calculation is shown in Table 2. The revenue requirement is derived by taking 10% of line 22 of Table 1. Based on adopted sales, the annualized revenue effect is an increase of $93.4 million.

TABLE 2

SOUTHERN CALIFORNIA EDISON COMPANY

Revised Calculation of the Annual Energy Rate
For a May 1, 1983, Revision Date

Line No.	Item	M^2 kWh	$M
1.	Revenue Requirement		
2.	To be recovered in the Annual Energy Rate		$226,705
3.	Adjustment for Franchise Fees and		
4.	Uncollectible Accounts Expense		2,319
5.	Total Revenue Requirement		
6.	(Sum of Lines 2 and 4)		229,024
7.	Forecast Sales M^2 kWh		
8.	Total Sales Subject to ECAC	53,683	
9.	Adjustment for Discounts	24	
10.	Forecast Adjusted Sales		53,659
11.	Annual Energy Rate-¢/kWh		
12.	(Line 6 divided by Line 10)		0.427

G. ECAC Recovery of Payments to Chevron

Edison is currently in litigation with Chevron concerning Edison's termination of its contract with Chevron. Edison has not projected underlift payments, facility charges, or any damages to be incurred during the AER forecast period. Edison states that in the event that damages or other payments could be made to Chevron in resolution of that litigation, Edison will expect to recover those costs through ECAC, subject to a future reasonableness review of those payments. Since the amounts are currently unpredictable, Edison is requesting that it be permitted to recover 100% of the costs in ECAC. Edison claims that this is the same treatment the Commission adopted for similar reasons with respect to facility charges in D.82-04-119 and that its position is also supported by D.83-04-089 (PG&E).

Staff objects to Edison's request. Staff argues that the Commission should not approve any recovery mechanism in advance. Instead, Staff proposes that Edison come before the Commission after litigation is complete and request recovery of its costs.

We are persuaded that Edison is entitled to ECAC recovery of such payments, subject to reasonableness review, as provided by D.82-04-119. To the extent such payments are due, the amount will be certain and will not relate to future fuel costs. There is no reason to include such costs in the AER.

H. Nuclear Waste Disposal Costs

On December 20, 1982, Congress passed the Nuclear Waste Policy Act of 1982 (Act), which, among other things, established a mandatory fee, effective April 7, 1983, for the disposal of spent nuclear fuel or high-level radioactive waste based on electricity generated by nuclear power plants. In addition, a one-time fee for spent fuel previously discharged from the reactor prior to April 7, 1983, will be established.

At the time of the hearing Edison was in the process of negotiating a contract with the Department of Energy (DOE) that will contain the formulae for establishing the total payment for nuclear fuel disposal costs. Due to the uncertainty of the amounts and methods of calculating the total payments, Edison was not able to forecast the amount of the expense for the forecast period. Edison requests that the total costs for nuclear fuel disposal be subject to 100% ECAC recovery when the payments are made.

Presently, the cost for nuclear fuel disposal has been reflected in the development of base rates. Edison argues that all costs associated with the Act should be recovered through ECAC, as ECAC recovery will more closely match the benefits with the cost of nuclear generation to the ratepayer.

Edison proposes to adjust base rates in the first ECAC revision subsequent to the settlement of the method of calculating total nuclear fuel disposal costs. Once the formula for calculating the nuclear fuel disposal payment is established in the DOE contract, Edison states that it will be able to forecast the expenditure and future payments for purposes of the ECAC and AER calculations.

Staff points out that Edison was authorized $16 million base rates for nuclear fuel disposal costs ($8 million in 1983 and $8 million in 1984). Staff states that simply because Edison chooses to request compensations in the ECAC/AER forum for costs related to nuclear waste disposal is no reason for disregarding the $16 million previously authorized.

We find that Edison's proposal does not disregard the previously authorized $16 million, is comprehensive, and should be adopted. Edison's treatment of the previously authorized base rate component protects the ratepayer from overpayment, while the future ECAC/AER recognition is appropriate, since the expense is so obviously fuel related, and the amount of the expense is directly related to the amount of production.

I. SONGS 2 Commercial Operation

At this time the commercial operating date of SONGS 2 remains uncertain. Edison requests that it be permitted to make appropriate adjustments to its ECABF and AER rates coincident with the implementation of rates that reflect the capital and operating costs, exclusive of fuel, related to the commercial operation of SONGS 2. Staff has offered a table that illustrates the adjustments for various operating dates and recommends that the AER adjustment be automatic upon advice letter filing.

We agree that the rate change should occur simultaneously so that the ratepayers pay only the net cost resulting from SONGS 2. The amount of the adjustment will be a function of such consideration as the capacity factor adopted for SONGS 2, nuclear fuel prices, and system heat rates.

J. Fuel Oil Inventory Adjustment

Among matters under consideration in OII 82-04-02 is the conceptual ratemaking treatment of fuel oil inventory. Edison proposes to make appropriate adjustments to the ECABF and AER rates when the criteria for ratemaking treatment are established. This request is reasonable.

VI. STEEL SURCHARGE ADJUSTMENT CLAUSE (SSAC)

Section 742 of the Public Utilities Code provides for discounted electric rates for certain steel producers, and for Edison to recover any revenue deficiency attributed to the lower rates by increasing the rates charged to other nondomestic customers, excluding public agencies.

The purpose of the SSAC is to implement the provisions of § 742 through the SSABF. Calculation of the SSABF is based on the revenue deficiency attributable to those customers who are billed on Steel Producer Rate Schedules and authorization of the Steel Surcharge Adjustment Account balance.

Based on Edison's updated showing, the SSABF is 0.049¢ per kWh, yielding about $15.5 million annualized, applied to sales subject to the SSAC. There is no issue regarding this calculation.

VII. ERAM

The purpose of the ERAM is to adjust revenues that are not subject to balancing account treatment for changes in revenue due to fluctuations in sales and other billing determinants from those used to develop authorized rate levels. Currently, the ERAM provision reflects in rates the difference between the authorized level of Base Rate and AER revenues and recorded Base Rate and AER revenues and incentive payments related to the Thermal Storage Load Management Program. The ERABF is subject to revision twice a year, coinciding with ECAC proceedings. Based on Edison's updated showing, the amount of revenue required by ERAM is about $21.5 million on an annual basis.

This is the initial implementation proceeding for Edison's ERAM. In addition to proposing a rate, Edison has filed a proposed ERAM tariff provision. Staff accepts Edison's calculation of the ERABF, but objects to Edison's proposed tariff provision. The difference between the parties is summarized in the excerpt from the oral argument of Edison's attorney attached as Appendix A.

This is a highly technical complex accounting issue that is not readily resolved in an evidentiary hearing. In the past we have resolved such issues with the help of technical committees, such as the statewide SAM Committee that was formed to examine different Supply Adjustment Mechanism procedures among different utilities. The purpose of ERAM is similar to the purpose of SAM. A similar committee might be helpful in resolving the ERAM impasse. Accordingly we direct Edison to form such a committee with the assistance of Staff. The Executive Director of the Commission will designate membership on the Committee and its chairman.

VIII. RATE DESIGN

Based on the foregoing, the overall revenue requirement, excluding the effects of the SSABF revenue requirement of $15.5 million annualized, is modified as follows:

ECAC (reduction)	$261.9 million
Less: AER	93.4
ERAM	21.5
	147.0 million reduction

There is no dispute over the rate design.

As stated above, the SSABF is spread to all nondomestic customers, excluding public agencies, on a uniform cents per kWh basis. The ERABF is applied to all sales subject to ERAM on a uniform cents per kWh basis. The AER is applied to all sales on a uniform cents per kWh basis. The ECABF is spread on a uniform cents per kWh basis among customer classes. Within the domestic class the residential lifeline rate is maintained at 80% of the system average total rate, excluding the SSABF. Within the time of use schedules the ECABF is spread to maintain existing differentials and ratios.

The system average rate is derived as follows:

Rate Component	Sales (gwh)	Revenue* ($M)	Rate ¢/kWh
Base	53,659 (adjusted)	$2,124,460	
ECABF		1,603,868	
AER		229,124	
ERABF		21,463	
CLMABF		14,489	
Total		$3,993,404	7.439** (System Average Rate)

* This includes a steel surcharge of .049¢/kWh, resulting in revenues of $15.538 million. This surcharge is applicable to nondomestic customers, excluding steel producers and public agencies.

** Based on unadjusted sales of 53,683 gWh.

Using the 80% factor, the lifeline rate of 5.951¢ per kWh, a reduction of 3.4% from the present rate of 6.16¢ cents per kWh. The nonlifeline rate is 8.736¢ per kWh, a reduction of 4.1% from the present rate of 9.112¢ per kWh.

Edison is directed to file tariff schedules that make these changes.

IX. CATALINA ADJUSTMENT

Edison requests that the current Catalina Energy Cost Balance Adjustment Billing Factors remain in effect until the balance is zero. Edison estimates the outstanding balance will be extinguished by June of 1985. There is no opposition. Edison's request is granted.

Findings of Fact

1. Rate stabilization as proposed by Edison might distract public attention from the rate impacts of individual proceedings.

2. Under Edison's plan, large increases would occur while large overcollections would exist.

3. Use of a 4-month ECAC forecast period would result in a large reduction.

4. Use of a 12-month ECAC forecast period would result in more stable rates.

5. The 12-month period was adopted in D.83-02-076.

6. The new water year begins in October for Edison.

7. Edison projects higher than average year runoff in the early part of the new water year to account for the higher than average snowpack.

8. Edison predicts near normal hydro production after January 1, 1984.

9. Adjusted average year data are reasonably used for the new water year.

10. Edison forecasts more occasions of minimum load conditions in the test period.

11. Edison's estimates reflect full utilization of its available Pacific Northwest transmission capability.

12. Edison's estimate of purchased power does not reflect current gas rate design considerations.

13. Edison has reasonably forecasted changes in the nonepisode day rate under the GN-5 schedule from Southern California Gas Company.

14. Edison has reasonably forecasted the number of episode days in its service territory.

15. Edison will be able to purchase more power on episode days because of economic conditions.

16. Based on Edison's estimates of purchased power during the summer months and recorded purchases for the early part of 1983, the Staff estimate of episode day costs is reasonable.

17. The SONGS 1 outage requires additional gas burn.

18. Twelve months' amortization of the balancing account will promote rate stabilization because of the large overcollection.

19. The annualized ECAC revenue effect is a reduction of $261.9 million.

20. The annualized AER revenue effect is an increase of $93.4 million.

21. Edison is currently in litigation with Chevron over termination of their contract.

22. Any payments Edison makes to Chevron will be certain and will not relate to future fuel costs.

23. Edison is required to pay a fee for the disposal of spent nuclear fuel.

24. The amount of the fee is unknown.

25. Edison has been authorized to recover $16 million in base rates to pay for spent fuel costs.

26. Spent fuel costs are fuel related and related to the amount of production.

27. The time for commercial operation of SONGS 2 remains uncertain.

28. The ECABP and AER should be adjusted to reflect fuel savings coincident with the inclusion of SONGS 2 in rates in commercial operation.

29. The impact of the SSABF is about $15.5 million.

30. The revenue impact of the ERAM is about $21.5 million.

31. The overall revenue effect of the various rate changes, excluding the effects of the SSABF revenue requirement of $15.5 million, is about $147.0 million.

32. The SSABF should be applied on a uniform cents-per-kWh basis.

33. The ERABF should be applied on a uniform cents-per-kWh basis.

34. The AER should be applied on a uniform cents-per-kWh basis.

35. The ECABF should be spread among customer classes on a uniform cents-per-kWh basis.

36. Within the domestic class, the lifeline rate is reasonably maintained at 80% of the system average total rate, excluding the SSABF.

37. Within the time of use schedules the ECABF should be spread to maintain existing differentials and ratios.

38. Maintaining the current Catalina Energy Cost Balance Adjustment Billing Factors will extinguish the outstanding balance by June of 1985.

39. Because the revision date is past, this order should be effective on the date signed.

Conclusions of Law

1. Edison's rate stabilization plan should not be adopted.

2. The ECABF should be calculated on a 12-month forecast basis.

3. Edison's hydro estimates are reasonable.

4. Edison's estimates of purchased power, adjusted for gas rate design considerations, are reasonable.

5. Edison's petition to reopen the proceeding should be denied.

6. Edison's calculation of gas costs, adjusted to reflect purchased power opportunities on episode days, is reasonable.

7. The balancing account amortization period should remain flexible.

8. Edison should be allowed 100% ECAC recovery of payments to Chevron, subject to reasonableness review.

9. Edison should be allowed 100% ECAC recovery for payments made for spent fuel disposal, subject to base rate adjustment.

10. Future spent fuel disposal costs should be included in the ECAC/AER calculation.

11. Edison should be authorized to file an adjustment to the AER when fuel oil inventory ratemaking criteria are announced in the decision in OII 82-04-02.

12. Edison has reasonably calculated the SSABF.

13. A statewide committee should be established to review ERAM.

14. The rate design methodology proposed by Edison is reasonable.

15. The current Catalina Energy Cost Balance Adjustment Billing Factors should be maintained.

16. The decision in OII 82-04-02 regarding the application of ERAM to the AER should apply to prospective filings.

INTERIM ORDER

IT IS ORDERED that:

1. On or after the effective date of this order Southern California Edison Company (Edison) is ordered to file revised tariff schedules reflecting the electric rates adopted in this decision. The revised tariffs shall become effective on the date of filing and shall comply with General Order 96-A. The revised rate schedules shall apply only to service rendered on or after the effective date of the revised tariffs.

2. Edison shall organize a statewide ERAM committee.

3. Edison's motion to reopen these proceedings is denied.

4. Edison shall comply with the decision in OII 82-04-02 regarding the application of ERAM to the AER in prospective filings.

This order is effective today.

Dated August 17, 1983, at San Francisco, California.

VICTOR CALVO
PRISCILLA C. GREW
DONALD VIAL
WILLIAM T. BAGLEY
Commissioners

Commissioner Leonard M. Grimes, Jr., being necessarily absent, did not participate.

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

Joseph E. Bodovitz, Executive Director

It's Edison's position that rather than adopting the staff accountant's recommendation, the Commission should remain flexible in adopting an amortization period that reflects circumstances existing at the time rate levels are set.

A major issue between Edison and the staff in this proceeding is the appropriate method for implementing the electric revenue adjustment mechanism for Edison. We'll refer to that mechanism as ERAM for short. And ERAM was established for Edison in Edison's last general rate case. As part of its filing in this proceeding, Edison filed its proposed method for implementing ERAM.

To put this issue in perspective, ERAM requires comparisons of authorized base rate revenues to actual revenues by month with the intent of allowing the utility to collect only its test year authorized revenues.

The staff accountant took exception to Edison's proposed methodology and filed their own proposal. Their exceptions appeared to be based on the following claims. First, Edison's method does not comply with the general rate case decision and, secondly, the Commission intended that the same methodology adopted for PG&E and San Diego Gas & Electric be used for Edison.

The first contention is based upon the accountants' interpretation of decision No.

82-12-055, Edison's last general rate case.

The staff claims this decision requires that Edison compare on a monthly basis estimated revenues for service rendered in the month to the authorized monthly level of base rate revenues.

In other words, the staff claims that Decision No. 82-12-055 requires Edison to estimate monthly base rate revenues, estimate the monthly ERAM entry, and then true up these estimates after the revenues for service rendered during the entire month have been recorded.

This staff methodology can require an average of three calculations to the ERAM in determining revenue recorded for only one month. Staff apparently bases its claim upon language in Decision No. 82-12-055 which defines actual base rate revenues as revenues for service rendered during the month.

Staff claims this requires an estimate of revenues to be made because all of the revenues for service rendered during a month are not recorded in that month.

Edison, on the other hand, proposes a much more simplified method which merely requires the utility to take recorded revenue for service rendered during the month and enter that amount into the ERAM calculation.

No estimate or subsequent adjustments are

necessary under Edison's method.

In order to implement this method and not recognize billing lag as the Commission has instructed, Edison has proposed to adjust the monthly distribution percentages adopted by the Commission in Edison's last general rate case to reflect the percentage of revenues recorded in a month for service rendered during that month.

With respect to staff's claim that Edison's method fails to comply with the Commission's decision, staff could point to no language in Edison's General Rate case decision requiring Edison to estimate and then adjust revenues for entry to the ERAM balancing account. Indeed, when asked under cross-examination, the staff witness conceded that this was his interpretation of Decision No. 82-12-055.

In response to staff's claim that the Commission intended the same methodology adopted for PG&E and San Diego Gas & Electric Company to apply to Edison, staff could point to no language in any Commission decision requiring this result.

Edison further notes that the staff witness conceded that generic policy can be implemented in different ways for different utilities to recognize different accounting methods among the utilities.

The point here is that Edison's accounting system allows it to identify revenues for service

rendered during the month and recorded during that same month. This ability eliminates any need for estimates.

Edison believes the record shows that Edison's method complies with the Commission's decision and its intent for implementing ERAM; so does the staff's. Since both methods comply, then we believe that the method that is superior should be adopted.

Edison's method is superior to the staff's because it directly uses recorded revenues for service rendered during the test year without having to resort to forecasting revenues and subsequently adjusting these forecasted amounts for recorded information.

It thus does not require detailed forecasts of revenues and also allows Edison to use its current statistical reporting systems.

When asked under cross-examination, the staff witness could not provide any advantages for its methodology over Edison's.

To summarize, we believe that the Commission should look at the merits of the two methods for implementing ERAM that have been presented in this proceeding. Although consistency among utilities may be desirable, we do not believe the Commission will adopt a methodology for Edison that requires unnecessary estimates and true-ups when the same

result can be achieved much more simply by direct use of recorded information.

In addition, it should be noted that both the methodologies proposed in this proceeding reached the same result by the time all revenues are recorded for service rendered during the test year. However, currently ERAM rates for Edison are scheduled to be adjusted every four months. The rate levels set every four months depend upon the amounts of money forecast to be in the ERAM balancing account.

The staff methodology in this proceeding results in a large undercollection of $36 million being reflected in the ERAM balancing account on May 1st, 1983.

An annualized rate set to amortize that balance has an annualized revenue impact of $108 million.

By contrast, Edison's method would result in an ERAM balancing account undercollection of approximately $7 million on May 1st, 1983.

A rate level set to amortize that balancing account balance has an annualized rate impact of approximately $21 million.

Edison submits the record clearly demonstrates the superiority of its method and submits that its proposal should be adopted for application to Edison.

With regard to the issue of rate stabilization

APPENDIX B

Southern California Edison Company

ADOPTED ELECTRIC RATES[a]

(¢/kWh)

Item	Present Rates					Adopted Rates			
		Offset					Offset		
	Base	Non-ECAC	ECAC	Total	Ratios	Base	Non-ECAC[c]	ECAC	Total
Residential									
Tier I (57%)	4.279	0.28	1.601	6.16	-	4.279	0.494	1.178	5.951
Tier II (43%)	4.279	.28	4.553	9.112	-	4.279	.494	3.978	8.751
Nonresidential[b]									
TOU-GS									
On Peak (20%)	3.697	.28	8.556	12.533	1.918:1	3.697	.494	7.896	12.087
Off Peak (80%)	3.697	.28	2.556	6.533	1:1	3.697	.494	2.111	6.302
TOU-8									
On Peak (18%)	2.145	.28	5.396	7.821	1.44:1	2.145	.494	4.841	7.48
Mid Peak (29%)	2.145	.28	4.092	6.517	1.2:1	2.145	.494	3.594	6.233
Off Peak (53%)	2.145	.28	3.006	5.431	1:1	2.145	.494	2.555	5.194
TOU-PA-1									
On Peak (36%)	2.425	.28	5.508	8.213	1.5:1	2.425	.494	4.946	7.865
Off Peak (64%)	2.425	.28	2.770	5.475	1:1	2.425	.494	2.324	5.243

a/ Customer charges and demand charges are not shown, as only ERAM, AER, SSABF, and ECAC components of rates are changed.

b/ Percent of sales by time period is in parenthesis.

c/ Adopted ERAM is 0.04¢/kWh, and AER is 0.427¢/kWh. The steel surcharge is 0.049¢/kWh.

Note: System average rate is 7.439¢/kWh.

Following 14 days of public hearings, this matter was submitted in two stages: oral argument on forecast issues that relate to the calculation of rate factors, and written briefs on the reasonableness issues that may be resolved by adjustment to the balancing account. In this decision we address the forecast issues.

II. BACKGROUND

By Decision (D.) 82-12-105 the Commission modified the ECAC procedure as applied to Edison to provide for ECAC recovery of only 90% of net fuel and purchased power costs, instead of 98%. The remaining 10% is recovered through the AER. In this proceeding we complete the transition from the 2% to the 10% AER.

By D.83-02-076 the Commission adopted certain further modifications to ECAC procedures. Although those changes do not yet apply to Edison, some of those policy considerations are reflected in this decision.

III. SUMMARY

By this decision Edison is ordered to implement rate reductions of $131.5 million. The reduction is the net effect of an ECAC reduction of $261.9 million and AER and ERAM increases. The lifeline rate is reduced by about 3.4%. The domestic nonlifeline rate is reduced by about 4.0%.

The ECAC revenue requirement is derived based on Edison's estimates of hydro, purchased power, and gas costs, adjusted to reflect purchased power available on episode days. The ECABF is based on a 12-month forecast period and 12-month amortization of the balancing account.

IV. RATE STABILIZATION

During the course of the proceeding various information was updated, resulting in a net larger reduction that could be implemented. Instead, Edison proposed that the Commission limit the

VIII. RATE DESIGN

Based on the foregoing, the overall revenue requirement is modified as follows:

ECAC (reduction)		$261.9 million
Less:	AER	93.4
	SSABF	15.5
	ERAM	21.5
		$131.5 million reduction

There is no dispute over the rate design.

As stated above, the SSABF is spread to all nondomestic customers, excluding public agencies, on a uniform cents per kWh basis. The ERABF is applied to all sales subject to ERAM on a uniform cents per kWh basis. The AER is applied to all sales on a uniform cents per kWh basis. The ECABF is spread on a uniform cents per kWh basis among customer classes. Within the domestic class the residential lifeline rate is maintained at 80% of the system average total rate, excluding the SSABF. Within the time of use schedules the ECABF is spread to maintain existing differetials and ratios.

The system average rate is derived as follows:

Rate Component	Sales (gWh)	Revenue* ($M)	Rate ¢/kWh
Base	53,659 (adjusted)	$2,124,460	
ECABF		1,603,868	
AER		229,124	
ERABF		21,463	
CLMABF		14,489	
Total		$3,993,404	7.439** (System Average Rate)

* This includes a steel surcharge of .049¢/kWh, resulting in revenues of $15.538 million. This surcharge is applicable to nondomestic customers, excluding steel producers and public agencies.

** Based on unadjusted sales of 53,683 gWh.

Using the 80% factor, the lifeline rate is 5.951¢ per kWh, a reduction of 3.4% from the present rate of 6.16¢ cents per kWh. The nonlifeline rate is 8.736¢ per kWh, a reduction of 4.1% from the present rate of 9.112¢ per kWh.

Edison is directed to file tariff schedules that make these changes.

29. The impact of the SSABF is about $15.5 million.

30. The revenue impact of the ERAM is about $21.5 million.

31. The overall revenue effect of the various rate changes is about $131.5 million.

32. The SSABF should be applied on a uniform cents-per-kWh basis.

33. The ERABF should be applied on a uniform cents-per-kWh basis.

34. The AER should be applied on a uniform cents-per-kWh basis.

35. The ECABF should be spread among customer classes on a uniform cents-per-kWh basis.

36. Within the domestic class, the lifeline rate is reasonably maintained at 80% of the system average total rate, excluding the SSABF.

37. Within the time of use schedules the ECABF should be spread to maintain existing differentials and ratios.

38. Maintaining the current Catalina Energy Cost Balance Adjustment Billing Factors will extinguish the outstanding balance by June of 1985.

39. Because the revision date is past, this order should be effective on the date signed.

Conclusions of Law

1. Edison's rate stabilization plan should not be adopted.

2. The ECABF should be calculated on a 12-month forecast basis.

3. Edison's hydro estimates are reasonable.

4. Edison's estimates of purchased power, adjusted for gas rate design considerations, are reasonable.

5. Edison's petition to reopen the proceeding should be denied.

6. Edison's calculation of gas costs, adjusted to reflect purchased power opportunities on episode days, is reasonable.

warns that if stabilization is allowed to become a part of each case, then matters become much more complex with many uncertainties introduced. CMA suggests that the ratepayers should be warned of the risk of large rate increases and allowed to manage their own money in order to provide the means to pay.

Rate stabilization is a term used frequently in Commission proceedings. Stabilization has been a consideration in resolving such matters as the frequency of ECAC revisions and the appropriate balancing account amortization period, as well as scheduling base rate and offset rate changes. We consider stabilization an important factor that should be publicly discussed as it was in this case, and we have no objection to Edison raising the issue in the record in this proceeding.

However, we are not inclined to undertake stabilization on the scale proposed by Edison in this proceeding. We find the benefits of rate stabilization insufficient to offset the negative impacts that might result.

Several of the matters included by Edison in its overview of rate impacts are highly controversial. We are concerned that the type of stabilization proposed by Edison would distract the public's attention from the merits of such proceedings and direct it instead to stabilization, particularly since the first large increase would occur while the overcollection in the ECAC balancing account was the highest ever.

V. ECAC AND AER ISSUES

A. Introduction

In light of their reciprocal relationship, ECAC and AER issues are reasonably addressed together, depending on the resolution of a single issue: the forecast period.

The ECABF has been calculated based on a 4-month forecast period. The AER has been calculated based on a 12-month forecast period. Edison proposes to use a 12-month forecast period for both calculations. Staff proposes that the ECAC calculation remain on a 4-month basis. If both the AER and the ECABF are calculated on a 12-month basis, the same forecast is used for both. If the 4-month period is used for the ECABF calculation, then two different forecasts are necessary.

The 4-month forecast period allows for greater certainty regarding the accuracy of the estimates. Depending on the specific conditions, use of the 4-month period can produce higher or lower rates than use of the 12-month period. In this instance use of the 4-month period for calculation of the ECABF would result in a larger rate reduction because of the known outlook for hydro and purchased power for the 4-month period compared to the 12-month outlook. Based on updated estimates, Edison calculates a net reduction of $131.9 million on a 12-month basis, while staff calculates a net reduction of $237.9 million. Using 4 months' data, Edison's reduction would be $312.2 million, while Staff's would be $375.8 million.

Although there are some advantages to the use of the 4-month period, we adopt the 12-month period for both the ECAC and AER calculations in this proceeding. The 12-month period was adopted in D.83-02-076 as the basis for ECAC filings under the modified procedure. We see no reason to delay its implementation.

The 4-month forecast period does allow rates to reflect seasonal changes in costs. However, the amortization of a large balancing account balance distorts the effect of seasonal variations. The most likely result of the use of the 4-month period is simply more frequent and larger rate changes.

B. Hydro Production

Edison estimates that 5684 gigawatt hours (GWH) will be produced by hydroelectric generation during the test period. Staff

TABLE 1

SOUTHERN CALIFORNIA EDISON COMPANY

Revised Calculation of the Average Energy Cost Adjustment Rate
For a May 1, 1983 Revision Date
Based on Twelve Months' Expense

(000)

Item	Forecast Period Expense
Oil	$ 6,687
Gas	1,755,629
Coal	103,841
Nuclear	5,629
Geothermal	-
Purchased Power	501,849
Mono Power Company Fuel Service Charge	12,840
Subtotal	2,386,476
Less: Revenue from Off-System Transactions	28,860
Less: Revenue from Sales of CDWR & APBA	4,381
Total Fuel and Purchased Power Costs	2,353,234
Costs Associated with Fuel Oil Inventory	90,914
Facilities Charges	10,357
Underlift Payments	-
Gains or Losses on the Sale of Fuel Oil	-
Less: Economic Dispatch Adjustment	9,452
Less: Episode Day Adjustment	15,900
Total Fuel and Purchased Power and Other Costs	2,429,153

(Continued)

I. SONGS 2 Commercial Operation

~~At this time the commercial operating date of SONGS 2 remains uncertain.~~ Edison requests that it be permitted to make appropriate adjustments to its ECABF and AER rates coincident with the implementation of rates that reflect the capital and operating costs, exclusive of fuel, related to the commercial operation of SONGS 2. Staff has offered a table that illustrates the adjustments for various operating dates and recommends that the AER adjustment be automatic upon advice letter filing.

We agree that the rate change should occur simultaneously so that the ratepayers pay only the net cost resulting from SONGS 2. The amount of the adjustment will be a function of such consideration as the capacity factor adopted for SONGS 2, nuclear fuel prices, and system heat rates. ~~Edison is directed to make an advice letter filing for review and consideration.~~

J. Fuel Oil Inventory Adjustment

Among matters under consideration in OII 82-04-02 is the conceptual ratemaking treatment of fuel oil inventory. Edison proposes to make appropriate adjustments to the ECABF and AER rates when the criteria for ratemaking treatment are established. This request is reasonable.

VI. STEEL SURCHARGE ADJUSTMENT CLAUSE (SSAC)

Section 742 of the Public Utilities Code provides for discounted electric rates for certain steel producers, and for Edison to recover any revenue deficiency attributed to the lower rates by increasing the rates charged to other nondomestic customers, excluding public agencies.

The purpose of the SSAC is to implement the provisions of § 742 through the SSABF. Calculation of the SSABF is based on the revenue deficiency attributable to those customers who are billed on Steel Producer Rate Schedules and authorization of the Steel Surcharge Adjustment Account balance.

Based on Edison's updated showing, the SSABF is 0.049¢ per kWh, yielding about $15.5 million annualized, applied to sales subject to the SSAC. There is no issue regarding this calculation.

VII. ERAM

The purpose of the ERAM is to adjust revenues that are not subject to balancing account treatment for changes in revenue due to fluctuations in sales and other billing determinants from those used to develop authorized rate levels. Currently, the ERAM provision reflects in rates the difference between the authorized level of Base Rate and AER revenues and recorded Base Rate and AER revenues and incentive payments related to the Thermal Storage Load Management Program. The ERABF is subject to revision three times per year, coinciding with ECAC proceedings. Based on Edison's updated showing, the amount of revenue required by ERAM is about $21.5 million on an annual basis.

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This is a highly technical complex accounting issue that is not readily resolved in an evidentiary hearing. In the past we have resolved such issues with the help of technical committees, such as the statewide SAM Committee that was formed to examine different Supply Adjustment Mechanism procedures among different utilities. The purpose of ERAM is similar to the purpose of SAM. A similar committee might be helpful in resolving the ERAM impasse. Accordingly we direct Edison to form such a committee with the assistance of Staff. The Executive Director of the Commission will designate membership on the Committee and its chairman.

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Edison is directed to file tariff schedules that make these changes.

7. The balancing account amortization period should remain flexible.

8. Edison should be allowed 100% ECAC recovery of payments to Chevron, subject to reasonableness review.

9. Edison should be allowed 100% ECAC recovery for payments made for spent fuel disposal, subject to base rate adjustment.

10. Future spent fuel disposal costs should be included in the ECAC/AER calculation.

~~11. Edison should file an advice letter to implement changes in the ECABF and AER when SONGS 2 goes into commercial operation.~~

11 12. Edison should be authorized to file an adjustment to the AER when fuel oil inventory ratemaking criteria are announced in the decision in OII 82-04-02.

12 13. Edison has reasonably calculated the SSABF.

13 14. A statewide committee should be established to review ERAM.

14 15. The rate design methodology proposed by Edison is reasonable.

15 16. The current Catalina Energy Cost Balance Adjustment Billing Factors should be maintained.

INTERIM ORDER

IT IS ORDERED that:

1. On or after the effective date of this order Southern California Edison Company (Edison) is ordered to file revised tariff schedules reflecting the electric rates adopted in this decision. The revised tariffs shall become effective on the date of filing and shall comply with General Order 96-A. The revised rate schedules shall apply only to service rendered on or after the effective date of the revised tariffs.

~~2. Edison shall file an advice letter to implement changes in the ECABF and AER rates when SONGS 2 goes into commercial operation.~~

2 3. Edison shall organize a statewide ERAM committee.

3 4. Edison's motion to reopen these proceedings is denied.

This order is effective today.

Dated AUG 17 1983, at San Francisco, California.

VICTOR CALVO
PRISCILLA C. GREW
DONALD VIAL
WILLIAM T. BAGLEY
Commissioners

Commissioner Leonard M. Grimes, Jr., being necessarily absent, did not participate.