

Decision 83 11 091 NOV 22 1983

BEFORE THE PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

In the Matter of the Application of  
 Southern California Edison Company  
 for authority to establish a major  
 additions adjustment clause, to  
 implement a major additions adjust-  
 ment billing factor and an annual  
 major additions rate to recover the  
 costs of owning, operating, and  
 maintaining San Onofre Nuclear  
 Generating Station Unit No. 2.

ORIGINAL

Application 82-02-40  
 (Filed February 18, 1982;  
 amended December 1, 1982)

In the Matter of the Application of  
 San Diego Gas & Electric Company to  
 add a major additions adjustment  
 clause (MAAC) to its electric  
 tariffs, to adjust its electric rates  
 in accordance therewith upon  
 operation of San Onofre Nuclear  
 Generating Station Unit 2, and to  
 modify its energy cost adjustment  
 clause (ECAC) rates.

Application 82-03-63  
 (Filed March 18, 1982)

ORDER MODIFYING DECISION 83-09-007

On September 7, 1983, the Commission issued Decision (D.) 83-09-007. Both Southern California Edison Company (Edison) and San Diego Gas and Electric Company (SDG&E) filed applications for rehearing of that decision. In today's decision, we consider one issue raised by those applications--that concerning the amount of interim cash rate relief granted to petitioners. Our further evaluation of this issue has convinced us that as a matter of equity, we should increase the amount of this relief. Therefore, this order modifies D. 83-09-007 by authorizing interim cash rate relief of \$304.4 million to Edison and \$100.6 million to SDG&E as of January 1, 1984. The following discussion explains the reasons for this modification.

D. 83-09-007 found it reasonable to grant interim rate relief in the magnitude of estimated SONGS 2 fuel savings for both Edison and SDG&E. This decision was based on several factors. First, while Edison and SDG&E had applied for a certain amount of interim relief, the figures they requested were never real, in the sense that it was known by all parties that additional revenue requirement would be applied for later in this proceeding. Moreover, because the prudence of expenditures is a primary issue in Phase 2, the amounts requested were not examined with any great precision in this phase. The Commission's job in granting interim relief was thus to balance ratepayer interests against those of the two companies, which the Commission did in the context of what it perceived as the goals of Phases 1B and 2. In Phase 1B, the Commission would consider not only the request for additional revenue requirement, but would examine in greater detail the appropriateness of several alternative ratemaking treatments. The Commission was of the view that if it granted Edison's and SDG&E's requests in full, it would lose flexibility in terms of such alternatives. Secondly, at the time D. 83-09-007 was issued, the Commission expected a decision on Phase 1B to be issued in February of 1984, thus the period of deferral would be short.

Several of these factors have changed since September of 1983. At this time, it does not appear that we will be issuing our Phase 1B decision until April at the earliest, thus the period of deferral of additional rate relief will be considerably longer than we first contemplated. Secondly, our preliminary evaluation of Edison's 1B filing, which seeks close to \$450 million in total cash rate relief, has convinced us that concerning flexibility for alternative ratemaking treatment, we were more conservative than necessary. We are of the view that the additional relief we grant today will not compromise this goal, particularly since it is in no way intended to prejudge our eventual decision on the accounting treatment to be accorded to SONGS 2.

Finally, our decision to tie the interim relief originally authorized to fuel savings was based on our perceived need to be conservative in holding back some of the amount requested, as well as our judgment that fuel savings do to a large extent reflect first-year benefits to ratepayers, and would thus be a reasonable measure of interim relief. Moreover, both the staff's and Edison's estimates correlated with each other, and use of this measure enabled the immediate impact on ratepayers to be nil. It was not a hard and fast determination of the real costs of SONGS 2. Upon further examination, we believe it more realistic to authorize a figure which comes closer to reflecting those costs, continuing, of course, to make the accompanying rates subject to refund pending our final determination of prudence in Phase 2.

In view of all of the above, we consider it equitable to both the ratepayers and the two utilities to authorize an additional \$97.5 million to Edison and \$39.9 million to SDG&E, for a total of \$304.3<sup>million</sup> and \$100.6<sup>million</sup> to the two companies respectively, effective January 1, 1984. These figures reflect and are consistent with the determination in D.83-09-007 that project costs be allocated equally between Units 2 and 3. Edison's request has, of course, always been based on a 60:40 allocation. To implement these increases, we will authorize both Edison and SDG&E to amend the investment-related cost rates of their MAAC tariffs to reflect the increases. These costs will, of course, be subject to balancing account treatment. All other requirements set forth in D.82-09-007 for implementation of the initially authorized rates shall also apply to these new rates. We take official notice that SDG&E still has a considerable overcollection in its ECAC balancing account and has pending before us an application for a further decrease (A.83-07-016). In order to further rate stability for SDG&E customers, we will order SDG&E to make reductions in its ECAC rates corresponding to the additional funds authorized today.

We finally note that the remaining issues in the two pending applications for rehearing will be dealt with in a further

order. Today's order, while denying rehearing on the single issue of cash rate relief, in no way takes a position on or resolves any of the other issues presented in those applications. Therefore,

IT IS ORDERED that D. 83-09-007 is modified as specified below:

1. The discussion in today's order is incorporated into D. 83-09-007; to the extent D. 83-09-007 differs, it is disapproved.

2. New Finding 42a is added to read:

"Edison's application for rehearing renews its original cash rate relief request of \$340 million."

3. Finding 49 is revised to read:

"While it would be reasonable to grant interim rate relief in the magnitude of estimated SONGS 2 fuel savings for both Edison and SDG&E, this amount does not realistically reflect the actual costs of the project."

4. New Finding 49a is added to read:

"The decision on SONGS 2, Phase 1B will be delayed several months beyond the date originally estimated."

5. New Finding 49b is added to read:

"Granting the rate relief requested by Edison, with a comparable amount for SDG&E, will enable the Commission to retain adequate flexibility for Phases 1B and 2, if it is made clear that these authorizations do not prejudice the decision as to the eventual accounting treatment to be applied to SONGS 2."

6. New Finding 54a is added to read:

"It is reasonable to require SDG&E to further review and revise its ECAC rates to the extent necessary to offset the increase authorized today."

7. New Finding 55a is added to read:

"It may be reasonable for Edison to further adjust its AER and ECAC rates to the extent necessary relating to today's authorized increase."

8. Finding 56 is revised to read:

"The reasonable interim rate increase for

Edison under its MAAC is \$~~204~~million. \$38.2 million of this increase is to cover noninvestment-related expenses and is not subject to balancing account treatment. The remainder relates to investment-related costs and will be subject to balancing account treatment."

9. Finding 57 is revised to read:

"The reasonable interim rate increase for SDG&E under MAAC is \$~~100.6~~ million. \$10.7 million of this increase is to cover noninvestment-related expenses and is not subject to balancing account treatment. The remainder relates to investment-related costs and will be subject to balancing account treatment."

10. Conclusion of Law 2a is added to read:

"Edison and SDG&E should be authorized to revise their MAAC procedures to establish an investment-related cost rate reflecting the increases granted today, which become effective January 1, 1984. These costs are subject to balancing account treatment."

11. New Ordering Paragraph 7 is added to read:

"Edison and SDG&E are authorized and directed to file with this Commission, on or after the effective date of this order, a revised MAAC tariff and a revised advice letter requesting rates authorized by D. 83-09-007 and this decision. All other requirements established in D. 83-09-007 for these filings shall still apply."

12. New Ordering Paragraph 8 is added to read:

"SDG&E is authorized and directed to file a revised ECAC tariff to reflect the reduction in ECAC rates approved by this decision. such rates shall become effective on the date of filing but not earlier than January 1, 1984."

Decision \_\_\_\_\_ L/AM:mbh

IT IS FURTHER ORDERED that rehearing of D. 83-09-007 on the issue of interim cash rate relief is denied. With the exception of this one issue, the applications for rehearing are deemed still pending before the Commission.

This order is effective today.

Dated NOV 22 1983, at San Francisco, California.

I will file a written dissent.

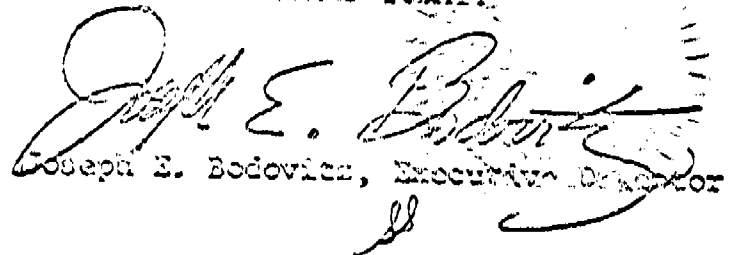
Priscilla C. Grew  
Commissioner

LEONARD M. GREMES, JR.  
President

VICTOR CALVO  
WILLIAM T. BAGLEY  
Commissioners

Commissioner Donald Vial, being necessarily absent, did not participate.

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

  
Joseph E. Bodovick, Executive Director

PRISCILLA C. GREW, Commissioner, Dissenting

I dissent, both on the majority's decision to consider the issue of interim rate relief in isolation, and on the majority's decision to grant at this stage further rate increases of \$97 million to Edison and \$39 million to SDG&E.

The several issues raised in the pending applications protesting the SONGS decision should have been analyzed and considered together in the normal way. Because the arguments in these applications are interdependent, I opposed splitting out the interim rate relief question in isolation for an early vote. For example, SDG&E advances an argument about the Target Capacity Factor that is partly based on the amount of interim rate relief granted by the Commission. Edison's central contention that "the commission's assessment of the decision's financial impact on the the company, and of investor reaction to the decision, is in error" is based jointly on the interaction of the interim rate relief and target capacity factor issues in our September 7 decision. I fail to see the urgency of voting today on the single issue of interim rate relief, when the rates will not go into effect until January 1.

Given the majority's decision to vote today on this issue, I do not find their arguments sufficiently persuasive to change my mind on the September 7 decision. For the Commission to make a change of \$136 million in a decision less than three months old should require a clear showing of legal error or very persuasive arguments showing good cause. In my opinion these criteria are not met in the arguments put forward either by the companies or by the majority.

Edison's applications for rehearing raised no claim of legal error on this issue. Rather, Edison argued that "from the investor's perspective, insufficient cash rate relief was authorized." SDG&E alleged that the decision contained insufficient findings to support the ultimate finding that fuel savings are a reasonable measure of first year interim cash rate relief. SDG&E did not even advance a

specific dollar amount for its requested rate increase. It simply stated that basic rates should be "increased to an amount consistent with the rate base (i.e. investment) and rate of return approved in the decision."

The majority's decision today mentions nothing about Edison's central arguments for more interim rate relief now: (1) negative investor reaction; and (2) adverse impacts on customers in 1985. Instead, the majority develops two different arguments of its own that I do not find sufficiently persuasive: (1) a two-month delay in the Phase 1B decision; and (2) a "preliminary evaluation" of the Phase 1B application, which is said to show that these new rate awards will leave a sufficient margin for future alternative rate-making options.

The majority wisely chooses not to mention or respond to Edison's arguments that "evaluations of the California Public Utilities Commission by investors are not favorable," and that "from the investor's perspective, insufficient cash rate relief was authorized." And the majority properly chooses to ignore Edison's allegations of dire rate impacts for 1985. Edison derives its 1985 scenario from its own assumptions: it underestimates fuel savings, assumes a drastic one-year amortization of a large balancing account under-collection in 1985, assumes traditional ratemaking treatment of SONGS, and assumes the Commission will award the company's total request in the next general rate case.

Instead of relying on Edison's arguments, the majority's decision is based on the following rationale. The majority states that there will be a two month delay, to April, 1984, in the expected decision date of Phase 1B of the San Onofre case. On September 7, we had anticipated a February decision. I believe that anticipated delay would be a good reason to consider modifying the decision, if the delay were clearly shown to result in adverse consequences. Yet there is no showing made that these companies will be in a poor financial position in the spring of 1984. Both companies have substantial overcollections today in their ECAC and ERAM balancing accounts. Edison is still amortizing the unprecedented



ECAC overcollection it has enjoyed during 1983, which amounted to some \$480 million as of September. I am not persuaded that the projected situation for next spring, following the SDG&E general rate case and the Edison attrition decisions in December, will be so dire that we should drastically change the September 7 decision today.

The second justification advanced by the majority is that a "preliminary evaluation" of the Phase 1B application by Edison has convinced them that alternative ratemaking proposals which will be addressed in Phase 1B will not be compromised by the rate increases adopted today. I disagree, and fear that the magnitude of today's awards could limit our future options. Furthermore, I still support the language of our September 7 decision citing Edison's refusal to update cost estimates during the Phase 1A hearings:

"Edison argues that it requires substantial cash rate relief at present to satisfy the financial community and maintain its bond rating. However, Edison's own actions in this proceeding do not support this contention. Early in the hearings in this phase, Edison indicated that total plant costs had exceeded its projections as reflected in the application. The staff immediately encouraged each company to amend its application to reflect the updated costs. The staff even introduced a motion to compel each utility to file an amendment. The ALJ denied the motion, but indicated to each utility that a failure to amend its application would leave it at risk for any additional sums. Nonetheless, neither company filed an amendment. Edison's refusal to amend its application contradicts its expressed concern for the precise amount of current rate relief."

Decision 83-09-007 at 48 (mimeo)

The majority today does not amend this September 7 language, and again refers to this refusal by the companies to enter updated cost estimates during the hearings on the Phase 1A proceeding. The majority states today, "while Edison and SDG&E had applied for a certain amount of interim relief, the figures they requested were never real, in the sense that it was known by all parties that additional revenue requirement would be applied for later in this proceeding."

The majority has decided to change the basic rate relief concept adopted on September 7: it shifts the basis of rate relief from the calculation of benefits to ratepayers in the form of fuel savings, to projected cost estimates by the utilities not presented in the Phase 1A hearings. To avoid prejudging our future proceedings in this case, the September 7 decision adopted our staff's recommendation, debated in the record, that fuel savings are a more equitable measure of first year rate relief than is reliance on projected future cost filings not yet examined by staff and the other parties. Edison's position in the Phase 1A proceeding was essentially "grant 100% of our requested relief in cash now, because we'll be coming in for more later."

None of the grounds cited by the majority for changing our September 7 decision were argued in the utilities' applications for rehearing. Edison's argument largely relies on its assessment of the mood of the investment community. Investors' reactions alone should not cause the Commission to reverse a prior decision without substantial other justification. Otherwise after every rate case we would encourage howls from Wall Street trying to change our minds. SDG&E's petition merely disputed the basis for using fuel savings as a measure of interim rate relief, and SDG&E requested an unspecified rate increase. Nothing presented in the petitions or in the majority's opinion justifies altering our earlier ratesetting by \$136 million. I believe that D.83-09-007 carefully developed a thoughtful and reasonable determination of appropriate interim recovery for both utilities.

  
PRISCILLA C. GREW, Commissioner

November 22, 1983  
San Francisco, California