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Decision No. 87429 June 7, 1977 ORIGINAL

BEFORE THE PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

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| In the Matter of the Application of SOUTHERN CALIFORNIA EDISON COMPANY for Authority to Modify its Energy Cost Adjustment Clause to Increase its Energy Cost Adjustment Billing Factor and to Provide for Quarterly Revision thereof. | Application No. 57199 (Filed April 1, 1977) |

Rollin E. Woodbury, Robert J. Cahall, William E. Marx, Richard K. Durant, by William E. Marx, Attorney at Law, for Southern California Edison Company, applicant.
Robert W. Schempp, for The Metropolitan Water District of Southern California; P. Hendricks, for the City of Vernon; and John W. Witt, City Attorney, by William S. Shaffran, Deputy City Attorney, for the City of San Diego, interested parties.
William J. Jennings, Attorney at Law, and Thomas Lew, for the Commission staff.

## OPINION

Southern California Edison Company (Edison) seeks authority to make effective an increase in its Energy Cost Adjustment Billing Factor (ECABF) applicable throughout its service territory except Catalina Island. Edison states that the proposed rates would increase its retail revenues by 6.5 percent or approximately $50.2 million for the six months commencing May 1, 1977.

Edison also requested that its Energy Cost Adjustment Clause (ECAC) be modified to provide for quarterly ECABF revisions; however, Edison withdrew this request at the hearing on May 18, 1977.

The presently effective ECABF is 0.857 cents per kwh and is applicable to both lifeline and other than lifeline sales. In this application Edison seeks to increase its ECABF to other than lifeline sales from 0.857 cents per kwh to 1.086 cents per kwh while maintaining the 0.857 cents per kwh rate for its lifeline sales. The increase in the ECABF which Edison proposes reflects the increased cost of fuel and purchased power as well as a $10,712,000 undercollection balance in the Energy Cost Adjustment Account as of February 28, 1977.

Background

On April 27, 1976, the Commission issued Decision No. 85731 in Case No. 9886, an investigation into fuel cost adjustment procedures, ordering each respondent utility, including Edison, to file an ECAC conforming to the elements set forth in the decision. On October 13, 1976, by Resolution No. E-1604, the Commission made effective Edison's ECAC as filed in Advice Letter No. 429-E (supplemental). Edison filed its last energy cost adjustment under the ECAC procedure in Application No. 56822 dated October 19, 1976, and by Decision No. 86760 issued December 21, 1976, the Commission set the current ECABF of 0.857 cents per kwh. The decision further established the ECABF revision dates of May 1 and November 1 of each year. The 0.857 cents per kwh ECABF represented an 0.092 cents per kwh reduction or a $44.5 million reduction in rates to offset the rate increase granted in Edison's general rate increase Application No. 54946.

Public hearings in this application were held in Los Angeles on May 18 and 19, 1977 before Examiner Kenji Tomita.

The Issues

The issues presented by this application are as follows:

1. Is the ECABF adjustment requested by Edison reasonable?

2. Should the Commission adopt Edison's rate design spreading the increase to all sales other than lifeline?

Commission Staff Position

A staff financial examiner took exception to Edison's proposed ECABF of 1.086 cents per kwh and recommended a 1.045 cents per kwh rate based on the following adjustments:

Exception No. 1 - Mono Fuel Service Charge Overbillings.

In calculating its ECABF, Edison included $7,980,000 as the current cost of Mono Power Company Fuel Service Charge based on a 1977 budget year forecast made before December 1, 1976. The staff financial examiner contends that for the calendar year 1976 Mono billings to Edison exceeded actual carrying costs incurred by Mono in the year 1976 by $810,000 and that such amount should be used to reduce Mono Power Company Service Charges included in the current ECABF computation.

Exception No. 2 - Nuclear Fuel Current Price.

The staff financial examiner contends that the current price of nuclear fuel used by Edison in its ECABF computation of .3281 cents per kwh does not represent the effective nuclear fuel assembly amortization rates as of April 1, 1977, as the San Onofre generation station was off line between September 30, 1976 and April 12, 1977. The staff contends that the amortization rate of .2322 cents per kwh used when the plant was last on line in September 1976 is the proper amortization rate to be used in calculating nuclear fuel costs.

Exception No. 3 - Underlift Charges

Edison's fuel oil contract with its major supplier, Chevron, U.S.A., Inc., calls for an underlift charge of $1.75 per barrel when Edison takes less than the contract volumes. These underlift charges can be used by Edison as credits against future purchases that exceed contract requirements provided they are used before 1980.

In 1976 Edison took less fuel oil than the contract requirements and paid underlift charges of $7,806,904 of which $5,506,480 were expensed as of February 28, 1977. The staff contends that these underlift payments are prepayments and should not have been included in either cost of fuel oil burned or the calculation of current cost of fuel oil for the purposes of this application.

The staff engineer in his exhibit suggested that should the Commission consider it appropriate at this time to flatten Edison's domestic rate structure (and later invert the rate structure), the entire scheduled May 1, 1977 increase to the domestic class could be added to the tail block only instead of distributing the increase evenly over all nonlifeline domestic sales. The staff engineer, however, testified that he is not recommending use of ECAC increases to create an inversion of domestic rate schedules at this time because he has not completed his studies in this area. The staff did not suggest any change to the present lifeline concept of spreading ECABF increases to the commercial and industrial classes.

Quarterly Filing

Edison, in withdrawing its request to modify its ECAC to permit regular quarterly adjustments, stated that it was not waiving its right to file quarterly revisions from time to time if it felt that such filing was necessary to avoid any undue buildup in its ECAC balancing account. The Commission is aware that the current extreme drought condition is placing an unusual cash flow burden on the company; therefore, the Commission will entertain a filing for an ECAC revision prior to Edision's next regular semi-annual revision date of November 1, if the company still believes that conditions have not improved and that a quarterly adjustment is necessary.

Discussion - ECABF

Under the Mono Edison Fuel Service Agreement, any differences between Mono billings to Edison and actual Mono costs are to be adjusted at the next quarterly adjustment period. Edison contends that such adjustment would take place in the normal sequence of events in a subsequent period which, in turn, will be reflected in an ECABF for a later period and, therefore, no adjustment to the current ECABF is necessary. The staff contends that the $810,000 differential represents a recorded difference which should be recognized immediately rather than deferred to the next ECABF revision date. We agree with the staff's position.

In connection with the nuclear fuel assembly amortization rate the staff contends that the San Onofre Nuclear Plant did not go back into service until April 12, 1977; therefore, the .3281 cents per kwh amortization rate did not represent the effective amortization rate as of April 1, 1977. Edison witness Codd testified that the new nuclear batches were loaded into the reactor in mid-December 1976 and that had the nuclear unit gone back into operation prior to April 1, 1977 it would have borne the same amortization factor used by Edison in the current filing. We agree that the .3281 cents per kwh amortization rate represents the proper cost figure for the purpose of this proceeding.

The underlift charges which created much controversy in this proceeding were the result of negotiations Edison entered into in order to obtain an adequate long-term supply of fuel oil to power its generators. In order to get a long-term contract, Edison's supplier insisted that an underlift provision be included in this contract so that it would be assured of recovering its investment in the facilities constructed to meet Edison's fuel requirements should Edison take less than the contract volumes. Edison recorded this $7,806,904 payment of underlift charges in 1976 in fuel inventory and subsequently expensed $5,506,480 in the cost of fuel oil burned in December 1976 and January and February 1977. The balance of underlift payments of $2,300,424 remained in inventory as of February 28, 1977.

The staff financial examiner contends that these charges should be properly treated as prepayments and therefore should not have been included in either expenses or in the calculation of current cost of fuel oil. The staff witness further stated that such prepayments should be recognized when Edison applies these credits against future purchases which, in fact, Edison is currently doing. Company witness stated that these credits would be used up by September 1977.

Edison contends that these underlift charges, as well as any future underlift charges, should be expensed currently because there is no certainty that Edison would be able to use the credits prior to the expiration date of the credit. Edison further contends that if these amounts were not currently expensed it will not be able to recover the carrying charges incurred in such prepayments. The staff recommended in the first instance that should Edison be unable to utilize the underlift charges it can always ask the Commission for recognition of such cost, and in the matter of carrying costs the staff recommended that they be considered in a general rate case as a component of working cash as on other prepaid items. We concur with the staff's position on underlift charges.

Based on the above discussion, the adopted ECABF rate to be found reasonable for this proceeding will be 1.049 cents per kwh.

Discussion - Rate Design

Edison objected to a modification of rate spread in this proceeding because of far-reaching economic, social, and financial ramifications. It recommended that any modification of its proposal to spread this increase to all classes of customers, excluding lifeline, on an equal cents per kwh basis should be made only after careful study and consideration in the context of a general rate case.

The staff's alternate rate design for domestic customers was prepared to offer the Commission an alternative should the Commission decide that a flattening of the residential rate structure was desirable at this time with the eventual possibility of considering an inverted rate structure in the future. The proposal to add the increase chargeable to domestic customers to the tail block will cause a flattening of the rates and tend to support the conservation ethic advocated by this Commission. The staff admitted that no study has been completed to determine what impact such flattening of rates would have on Edison's revenues, although it was of the opinion that the magnitude of the increase was not sufficient to cause any significant impact. The staff witness further added that the differences between rate blocks in PG&E are not as great as the differences in rate blocks in Edison's domestic schedule, so there is a certain amount of extra latitude available in Edison's domestic rate structure to accomplish a flattening of rates without actually going into an inverted rate design.

In order to be consistent with the National Energy Policy set forth by President Carter and also to conform with this Commission's announced advocacy of conservation, we feel that now is the proper time to adopt the staff's alternate rate proposal relating to domestic customers. The flattening of rates which will result from the adoption of the alternate rate design will provide the ratepayers with the right price signals for energy conservation and also tend to discourage wasteful consumption patterns within the domestic class. The staff's alternate rate proposal does not change the present procedure for implementing offset rate increases for commercial and domestic classes. For these reasons, we will adopt the staff's alternate rate design.

The estimated increases in California jurisdictional gross revenue for each class of service for the various classes of revenue for the five months commencing June 1, 1977 to November 1, 1977 are as follows:

| Class of Customer | Sales $M^2$KWH | Revenue Increase $M^2 | Revenue Increase % |
|---|---|---|---|
| Domestic | | | |
| Lifeline sales | 3,341 | 0 | |
| Nonlifeline sales | 2,734 | 5.2 | |
| Total | 6,075 | 5.2 | 2.0 |
| Agriculture | 795 | 1.5 | 5.4 |
| Commercial | 6,120 | 11.8 | 5.3 |
| Industrial | 6,860 | 13.2 | 7.0 |
| Public Authorities | 2,010 | 3.9 | 5.4 |
| Total | 21,860 | 35.6 | 4.6 |

A bill comparison for a typical domestic service schedule (Schedule D3) with 240 kwh lifeline allowance is presented in the following tabulation:

| Monthly Usage KWH | Present Rates | Current Lifeline Concept | Adopted Rates |
|---|---|---|---|
| 240 | $12.36 | $12.36 | $12.36 |
| 300 | 14.85 | 14.96 | 14.85 |
| 500 | 21.23 | 21.72 | 21.66 |
| 1000 | 37.17 | 38.63 | 38.70 |
| 2000 | 69.06 | 72.44 | 72.77 |

Edison's witness testified that its jurisdictional earnings under present base rates are expected to be significantly below the 8.8 percent which the Commission authorized in Decision No. 86794. The proposed increase in the ECABF will not alleviate such revenue deficiencies, but will avoid a much larger buildup in the undercollection balance in the ECAC Balancing Account and also substantially improve Edison's cash flow.

Findings

1. The adjustments made by the Commission staff on Edison's ECABF calculations of $810,000 relating to the Mono Fuel Service Charge and the adjustment for underlift charges are reasonable.

2. The revised ECABF of 1.049 cents per kwh is reasonable for the period May 1 to November 1, 1977 for all nondomestic sales.

3. The authorized increase would amount to $35.6 million if effective for the five-month period to November 1, 1977.

4. The staff's alternate rate design for domestic customers, which spreads the domestic service increase over the tail block only, is reasonable to encourage conservation and will result in an ECABF rate of 1.075 cents per kwh for domestic nonlifeline sales in excess of 300 kwh.

5. The changes in electric rates and charges authorized by this decision are justified and reasonable; the present rates and charges, insofar as they differ from those prescribed by this decision are, for the future, unjust and unreasonable.

Conclusions

1. Edison should be authorized to file and to place into effect the authorized ECABF set forth above.

2. The effective date of this order should be the date hereof because there is an immediate need for rate relief. Edison is already incurring the costs which are being offset by the rate increase authorized here.

ORDER

IT IS ORDERED that:

1. Southern California Edison Company is authorized to file and place into effect as of June 1, 1977 the revised ECABF rate set forth above for nonlifeline electric usage.

2. No change is authorized in the ECABF rate for lifeline electric usage.

3. The revenue increase to the domestic class should be added to the tail block only instead of all nonlifeline domestic sales.

The effective date of this order is the date hereof.

Dated at San Francisco, California, this 7th day of JUNE, 1977.

I will file a dissent.
William Symons Jr.

Robert Batinovich
President

Vernon L. Sturgeon
Richard D. Gravelle

Commissioners

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COMMISSIONER WILLIAM SYMONS, JR., Dissenting

In today's decision, the California Commission departs from sensible cost-of-service ratemaking principles at an accelerated pace. It does not take the recommendation of staff that the necessary increases be applied as proposed: in accordance with the current lifeline concept. The Commission overrides the utility's reasonable request to change ratemaking policy in the more appropriate setting of the general rate case. Staff admits no studies have been done, and, as Staff Exhibit 2 indicates, the same formula applied to the November 1, 1977, E.C.A.C. will usher in an era of "inverted rates" for domestic customers. It is imprudent to start down such a path without the benefit of knowledgeable forecasts as to the consequences.

The effects of social welfare intrusions into our rate structure continue to pile up. Subsidies are further increased by today's order. Residential class, with usage of 6,075 $M^2$ KWH, will only pay \$5.2 million of the increased system costs of \$35.6 million. With a comparable usage of 6,860 $M^2$ KWH, the industrial class is socked with a \$13.2 million increase in their electric bills. How long can state government increase the burden of doing business in California without driving out the commerce and jobs we claim we want?

San Francisco, California
June 7, 1977

William Symons Jr.
WILLIAM SYMONS, JR.
Commissioner