

Decision No. 89130 JUL 25 1978

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 increase)
rates charged by it for electric)
service.)

Application No. 57602
(Filed October 7, 1977)

(Appearances are listed in Appendix A.)

OPINION ON MOTION FOR PARTIAL GENERAL RATE INCREASE

Southern California Edison Company (Edison), a California corporation, filed a motion on April 28, 1978 for a "Partial General Rate Increase" of approximately \$178,100,000, to be effective on or before June 1, 1978. Written responses opposing the motion were filed by the Commission staff, the California Farm Bureau Federation (Farm Bureau), the California Manufacturers Association (CMA), Toward Utility Rate Normalization (TURN), and by the California Retailers Association (CRA) on May 12, 1978 pursuant to the direction of Administrative Law Judge Jerry Levander.

Edison's application was the first tendered under the Commission's Regulatory Lag Plan (Plan) authorized by Resolution No. A-4693 dated July 6, 1977. The Plan was instituted with the goal of deciding major general rate cases within one year of filing the application. Edison tendered its Notice of Intention (NOI) for filing on July 15, 1977. After staff review, Edison was directed to correct certain deficiencies in its filing and to tender a complete NOI documentation for test year 1979 as well as the previously filed test year 1978. The NOI was accepted

on August 8, 1977. This application was filed on October 7, 1977. Edison was notified by a letter from the Executive Director that the Commission would consider granting partial rate relief not later than August 31, 1978 if warranted at that time.

Pursuant to the Plan a prehearing conference was held in the city of Los Angeles on October 17, 1977. After notice, seven days of hearing for public witness testimony were held in the cities of Los Angeles, Visalia, Santa Ana, Santa Barbara, Long Beach, Palm Springs, and San Bernardino between December 6, 1977 and December 20, 1977. Applicant's presentation began on February 23, 1978. There were 40 days of hearings on the evidentiary phase of this proceeding held between February 23 and May 22, 1978 in Los Angeles and San Francisco. The matter was submitted on an interim basis on May 22 subject to receipt of late-filed exhibits which have been received and to the filing of opening briefs on June 21, 1978 and closing briefs on July 6, 1978.

The basis for Edison's requested 1978 rate relief is as follows:

- "1. Revenue deficiency at present rates based on Staff's estimates in Ex. 47-1, Table 19-A (Revised), including conservation adjustment revenues, excluding 7% labor escalation for 1978, and increasing the rate of return to 8.98% based on updated embedded costs of debt and senior equity for 1978 and the return on common equity of 12.63% allowed in Dec. No. 86794. \$ 82.5 million
- "2. Effect of Dec. No. 83650 issued April 4, 1978, in Appl. No. 57111 (p. 16) determining that conservation adjustment revenues should be recovered in general rate case and conservation adjustment account balance should be expensed (Ex. 47-1, Table 18-C (Revised), netting out the negative resale fuel clause revenue of \$1.2 million). . . \$ 11.5 million
- "3. 7% wage escalation for 1978 (Ex. 47-1, Table 19-A (Revised)) ^{1/}. \$ 13.5 million
- "4. Adjustment of rate of return to 9.08% using Staff recommended capital ratios (Staff's Study of Cost of Capital and Rate of Return, Table 28) (9.08% - 8.98% x \$3,824,018,000 x 2.1366 = \$8.17 million) \$ 8.2 million
- "5. Adjustment of rate of return to 9.12% based on Staff's recommended 12.73% return on common equity (Staff's Study of Cost of Capital and Rate of Return, Table 28) (9.12% - 9.08% x \$3,824,018,000 x 2.1366 = \$3.268 million). \$ 3.3 million
- "6. Revenue difference between Company and Staff estimates per Results of Operations exhibit for 1978 (Ex. 47-1, Table 19-A (Revised)) (\$1,018,023,000 - \$1,007,854,000 = \$10.169 million) \$ 10.2 million

^{1/} See Horton letter of April 7, 1978, attached as Appendix A, evidencing the Company's 7% across-the-board offer."

- "7. Additional revenue difference between Company and Staff estimates per Results of Operations exhibit for 1978 assuming same conservation and voltage reduction (from Ex. 47, Table 7-C, 54.7M² kwh + 993.0M² kwh = 1047M² kwh for Staff minus Edison estimated conservation 430M² kwh from Ex. 12, Table 19-D, Sheets 1 and 2, equals 617M² kwh x 1.94¢ average revenue per kwh per Staff's Ex. 47, Table 7-C and Ex. 47-1, Table 19-A (Revised), equals \$11.97 million). \$ 12.0 million
- "8. Rate base differences between Company and Staff estimates per Results of Operations exhibit for 1978 resulting from Staff considering only rate base reductions subsequent to 4th quarter 1976, construction budget forecast (\$25.3 million ÷ x 0.946 ÷ x 9.32% x 2.1366) \$ 4.8 million
- "9. Rate base differences between Company and Staff estimates per Results of Operations exhibit for 1978 resulting from Staff disallowance from rate base of pollution control equipment included in NOCWIP notwithstanding FPC Order No. 555, permitting such inclusion (\$81.5 million ÷ x 0.946 ÷ x 9.32% x 2.1366) \$ 15.3 million
- "10. Adjustment of rate of return to 9.32% based on percent increase in return on common equity allowed in Dec. No. 86794 (12.63%) by percent increase in embedded cost of debt from 1976 to 1978 (12.63% x 6.83/6.51 = 13.25%) (9.32 - 9.12) x (\$3,824 million + (\$25.3 million + \$81.5 million) x .946) x 2.1366 = \$16.8 million \$ 16.8 million
- Total partial increase requested \$178.1 million"

"1/ Difference between Edison and Staff beginning year 1978 plant and 1978 weighted plant additions (Ex. 12, Table 17-A vs. Ex. 47, Table 17-A).

"2/ Rate base allocation to retail per Ex. 47-1, Table 19-A (Revised).

"3/ Difference between Edison and Staff NOCWIP environmental plant (Ex. 12, Table 17-A vs. Ex. 47, Table 17-A)."

Edison Argument

Edison alleges that its estimates of revenues, expenses, rate base, and cost of capital for the years 1978 and 1979, respectively, demonstrate revenue deficiencies in present rates which prevent the production of earnings commensurate with its projected cost of capital for those years. Edison argues that much of the test year is now history but none of the needed rate relief has yet been made effective. Edison also alleges that the test year 1978 staff estimates of revenues, expenses excluding fuel and purchase power (the energy cost adjustment clause (ECAC) related expenses), and rate base indicate that 1978 jurisdictional revenues at present rates will be deficient by \$105,400,000. Edison adds \$13,500,000 for labor cost increases of seven percent in 1978,^{1/} excluded in the staff estimate, used staff capital ratios and estimated costs of debt and of preferred stock for 1978 to produce a return on common equity of 12.63 percent, the return the Commission determined "is the minimum needed to attract capital at a reasonable cost and not to impair the credit of Edison." (See page 23 of D.86794 dated December 21, 1976 in A.54946 for test year 1976.) Edison argues that further increases are needed to meet its minimum return requirement under 1978 financial conditions, aside from the overstatement of sales and revenues and understatement of costs, including rate base, reflected in the staff's estimates for test years 1978 and 1979; and that its evidence indicates a 1978 revenue deficiency of \$287,500,000, which if realized would produce a return on equity of 15 percent and 10.0 percent on rate base.

^{1/} Appendix A to the motion contains an April 7, 1978 memorandum from Jack K. Horton, Edison's Chairman of the Board, which states that "non-APS, non-represented employees will receive a seven percent wage increase retroactively to January 1, 1978 plus additional vacation benefits for long-term employees and that a seven percent increase in wages has been offered to union represented employees."

Edison proposes to ameliorate its earnings deficiency without increasing the overall level of revenue collections by foregoing a requested May 1, 1978 (see A.57693) \$43,800,000 ECAC adjustment. Edison proposes to increase its base rates by about \$178,100,000, reduced by \$5,730,000, the revenue effect of newly authorized connection charges (Advice Letter No. 558-E), and to reduce its ECAC Billing Factor (ECACBF) to offset the base rate increase so that its jurisdictional sales revenues will not be changed pending the ultimate decision in this proceeding. Edison proposes that this increase be made effective no later than June 1, 1978 to achieve the maximum possible reduction of its 1978 earnings deficiencies and to reduce erosion of its earnings until the Commission makes its ultimate determination of the full revenue increase required for test year 1979. Edison states that the partial general rate increase is consistent with the recognized need to take reasonable measures to expedite the authorization of needed rate relief in connection with the Commission's Plan; that the alternative is to subject Edison to serious earnings deficiencies caused by avoidable regulatory lag; that although Edison has undertaken cost control measures, such measures, at most, can be expected to have only nominal effect in achieving further reductions both of its present projected costs of operations and of its 1978 earnings level; that its extensive conservation efforts are being further expanded pursuant to Commission direction and encouragement; that its research and development activities aimed at finding new energy sources, at reducing costs, and at reducing environmental effects of providing electrical utility service continue at a high level; that its construction program needed to meet the increasing demands of its customers for service, notwithstanding increased conservation efforts, imposes an increasing financial burden on the company,

making it essential that all reasonable steps be taken to minimize earnings deficiencies in order to attract necessary new funds at reasonable cost; and that it believes an appropriate basis for allocating such a partial general increase in base rates would be to increase energy charges for domestic nonlifeline in excess of 300 kilowatt-hour (kwh) per month and for other than domestic service as shown in Appendix D of its motion.

Opposition to Edison's Motion

The staff argues in opposition to Edison's motion as follows: (a) the motion is premature insofar as the regulatory lag timetable will be met;^{2/} (b) there is no evidence to support any inference that Edison is in danger of losing its current favorable bond rating at this time, absent immediate June 1, 1978, rate relief; (c) Items 1, 4, 5, and 10 in Edison's proposal include upward adjustments of rate of return; that \$14.7 million, included in Item 1, constitutes an adjustment for increased cost of debt; that Item 4 uses new capital ratios rather than those underlying the existing authorized rate of return; that Item 5 is an upward adjustment in that it applies the staff recommended return on equity for 1979 test year to 1978; and that Item 10 is an untested equity adjustment factor derived from increased debt costs; (d) Item 2 is an upward adjustment for conservation already reflected in staff estimates and appears to be duplicative; (e) Item 3 represents a wage escalation in the form of a contract, which, consistent with staff practice, the staff has not included in its showing to avoid impairing Edison's bargaining power;

^{2/} It does not appear that a draft decision will be available on August 9, 1978. Edison's motion will be considered because it does not appear that a decision based on test year 1979 can be issued by October 6, 1978.

(f) Items 6 and 7 represent Edison's selection of staff estimates most favorable to its position, which selection is intended to inflate its revenue requirements; Edison's selection of staff estimates rejects those adjustments which would reduce its revenue requirements; (g) Item 8 includes rate base components not included by the staff which are at issue and should not be considered herein; (h) Item 9 resurrects the inclusion of nonoperative construction work in progress in rate base; that the Commission has twice rejected Edison's argument on this issue (in D.86794 and in D.87828 in A.54916); and that Edison's argument should not be considered herein; (i) if the Commission considers Edison's motion, it should be at the levels of staff expenses, revenues, and rate base for 1978 at the existing authorized rate of return; that \$67.8 million is the indicated revenue deficiency at present rates based on staff estimates in Exhibit 47-1, Table 19-A (revised), to achieve the last authorized rate of return of 8.8 percent; (j) the motion is deficient in that it is imprecise as to rate spread, particularly regarding very large power customers who will receive a higher increase than that proposed in the application; (k) Edison's proposal to forego its pending semiannual filing for a \$43.8 million ECAC increase, effective May 1, 1978 (A.57963), as an offset to its proposal is contrary to the distinction drawn by the California Supreme Court in Southern California Edison Co. v Public Utilities Com. (_____ 3d C._____, March 23, 1978 (SF No. 23500)) between general rate proceedings and special proceedings such as fuel adjustment proceedings; that Edison's proposal to forego its ECAC increase is illusory in view of the substantial reduction anticipated in its November 1, 1978 ECAC adjustment; that at best, Edison is deferring future fuel costs until a future period; and that Edison's proposal should be explored and tested by hearing or further review.

TURN argues that: (a) the relief requested is illegal and unconstitutional; (b) Sections 451 and 454 of the Public Utilities Code require a showing by the utility and a finding by the Commission that the requested increase is justified and reasonable; (c) interim or partial increases are extraordinary remedies requiring a very substantial and immediate need for the requested increase (e.g., financial emergency); (d) no financial emergency has been alleged or shown by Edison; (e) regulation does not guarantee a profit but only the opportunity to earn a certain rate of return; (f) the relief granted Edison in D.85294, dated December 30, 1976. in A.54946 was based on time pressures which are no longer present under the Plan; (g) in D.85294, the Commission adopted the staff estimate which was the most conservative on the record; (h) there was no notice or opportunity to test the results on the record; (i) granting a partial increase as proposed would violate TURN's implied right to participate under Public Utilities Code Sections 451, 454, 1708, 1756, and 1760, Article XII, Section 2 of the Constitution of California, and would be in violation of Section 1094.5 of the Code of Civil Procedure and would violate the Due Process and Equal Protection Clauses of the United States Constitution; (j) no residential customer testified at the hearings; (k) the proposed ECAC reduction, since it is not related to the expedited recovery of permissible energy costs, is illegal and improper; (l) Edison would gain immediate tax benefits through deferring its ECAC increases; (m) the results of granting Edison its increase would be a ratepayer contribution of capital to Edison; (n) interim relief cannot be granted prior to day 225 under the Plan if the draft decision is not available 10 months after filing of the application; and that (o) conservation balancing account expenditures should not be considered in this application. TURN's position on specific items in Edison's proposal parallels the Commission staff argument.

CMA argues that: (a) a partial increase is not justified by delay pursuant to the Plan; (b) any partial increase in 1978 should be substantially uncontested; (c) Edison was offering to forego something it may not be entitled to; (d) a partial increase on a uniform cents-per-kilowatt hour basis would result in a larger increase to very large power customers than the full increase proposed by any party; (e) ECAC deferrals will accrue interest payable to Edison at 7 percent, which is more than some ratepayers can save on their deferred ECAC payments; (f) in A.57963, Edison indicated it is currently accruing greater ECAC revenues than its costs of fuel and purchased power (\$22,165,000) in February 1978; (g) Edison's own forecasts in A.57963 indicate that granting its ECAC increase would lead to substantial overcollections which would require reduced ECAC rates in November 1978; (h) the Commission should depart from its ECAC procedures and defer any change in ECAC rates until about August 1, 1978 when the existing undercollections have been eliminated and then reduce ECAC rates to current costs; (i) lighting and small power customers would pay a greater increase under Edison's motion than the increase requested in the application; (j) Edison gave no reason for departing from its rate design concepts, and the partial increase would prejudge subsequent rate design issues. CMA attacks the proposal as a device for deferring Commission action on the overall rate case. CMA suggests alternate rates based on a uniform percentage increase by class, decreasing the relief sought, to eliminate any increase to Edison's lighting and small power customers, or, in the alternative, shifting that group's uniform percentage increase to domestic customers.

CRA raises many of the previously discussed arguments. CRA argues that: (a) interim relief for Pacific Gas and Electric Company (PG&E) was authorized in D.88262, dated December 20, 1977, in A.57556 without a showing of emergency; (b) PG&E's revenue stabilization plan differs significantly from Edison's; (c) the time to final decision was far greater for PG&E than for Edison; (d) the Commission stated that PG&E's rates would be stabilized for not less than two years and "large ECAC increases to which PG&E is entitled on January 1, 1978 will not be granted". (This is in addition to other ECAC relief due PG&E which had been deferred earlier); (e) Edison does not propose to reduce future ECAC increases by amounts granted in its general rate increase; (f) no party has proposed a uniform cents-per-kwh increase in this proceeding; and (g) if the ECAC decrease were looked at separately from the base rate increase, the inequity of Edison's proposal would be apparent. CRA also stresses that certain customer groups would pay more on the partial basis than in a final decision.

Farm Bureau concurs with the latter objection and with other points discussed above. Farm Bureau argues that: (a) if interim rate relief is allowed, it should be based on the lowest uncontested amounts supported by evidence in the record, namely, \$67.8 million based on the staff showing and the testimony of Dr. Rettenmeyer for the Executive Agencies of the United States (US) for an 8.79 percent rate of return; alternatively, the upper limit of the proposed increase should be based on updating embedded costs of debt, preferred and preference stock, estimated by the staff to be \$82.5 million; (b) Edison's proposed rates would exacerbate existing rate distortions during the interim period.

None of these parties supported any interim relief. The amounts stated were fall-back positions if rate relief was granted. All of the parties were opposed to Edison's rate proposal.

Discussion

Beginning in mid-1977, the Commission was faced with the task of formulating, organizing, staffing, and implementing the Plan. As part of the implementation of the Plan, the Commission considered the applications of Southern California Gas (SoCal) and Edison for general rate increases, to be filed prior to institution of the Plan. Because the Commission desired to guard against erosion of earnings and possible bond deratings resulting from unforeseen problems in meeting the one-year deadline for issuing decisions in the SoCal and Edison proceedings, on July 26, 1977 the Executive Director, at the instruction of the Commission, notified Edison and SoCal that the Commission would consider granting partial general rate relief not later than August 31, 1978, if warranted at that time. The Executive Director's letter to Edison was discussed at the prehearing conference in this application and parties desiring a copy of the letter have been furnished with it. Edison's motion has been made pursuant to this letter. All parties have been made aware of the letter and were permitted to submit briefs on the reasonableness of Edison's request.

The Plan establishes timetables for the distribution of staff exhibits, followed by distribution of exhibits by other parties, and for distribution of rebuttal testimony. It establishes starting and completion dates for the hearings, dates for filing briefs, and a date for submission of a draft decision by the Administrative Law Judge. Because of slippage in meeting the deadlines established by the Plan, occasioned inter alia by a delay of nearly two months in commencing hearings in the case-in-chief, late distribution of exhibits, and the need for additional time for adequate cross-examination, a draft decision will not be available within the time limits prescribed by the Plan, namely, by August 9, 1978. It follows, due to the time required for review of a draft decision, that a final decision in this application may be rendered

subsequent to the expiration of the 12-month period following filing of Edison's application (subsequent to October 6, 1978).

Due to delays encountered in processing this application and since the deadlines established by the Plan will not be met, it is appropriate at this time to grant a partial rate increase to permit Edison to bring its revenues up to the level where it could achieve the last authorized rate of return of 8.8 percent on the staff basis with certain modifications. It would be appropriate to increase this level to 8.98 percent to reflect updating of embedded costs of debt and senior equity this time.

We will adopt the staff's estimated 1978 results of operations presented in Exhibit 47-1 and to which we will include adjustments for conservation, service connection-charge revenues, the wage increase adjustment, and additional cost for postage rate increase. Appendix B sets out the staff's 1978 estimated year summary of earning. In addition, \$11,472,000 adjustment for conservation is included as a reasonable adjustment in light of this Commission's Decision No. 88650 (April 4, 1978), which deferred consideration of conservation adjustment revenues to these proceedings. It is reasonable at this time to include \$13,463,000 for a 7 percent wage increase contemplated for 1978. This sum, as it presently stands, constitutes a firm offer to Edison's employees who have retroactively received the increase since January 1, 1978. In addition, the staff has indicated that, if higher postage rates become effective, it would be appropriate to adjust the staff estimates upward to reflect that increase. Since Edison's current postage rates, based on sorted mailings, have increased from 12 to 14 cents per billing, the staff estimate should be increased by \$397,000.

Appendix B shows that with these adjustments, including the deduction of \$5,730,000 for connection-charge revenues pursuant to Advice Letter No. 458-E, a 7.73 percent rate of return will result. To increase this return to the adopted 8.98 percent rate of return, a \$102,129,000 revenue increase is required for California jurisdictional operations.

The ever increasing cost of goods and services, the current level of the cost of money, the implementation of environmentally related requirements, and the need for substantial increases in Edison's need for capital requires expeditious action on the part of this Commission to provide needed financial relief. It is necessary to reduce Edison's earnings attrition to avoid the possible derating of Edison's securities. In addition, Edison is spending considerable amounts of money to develop effective conservation programs and to secure new energy sources through its affiliate. The terms and conditions under which the affiliate can secure new energy sources is dependent, in part, on Edison's financial health. There is built-in attrition in Edison's earnings, resulting from construction of new plant or replacement plant at costs much greater than a comparable plant now used in Edison's operations.

The \$102,129,000 partial general increase in base rates authorized herein is more than half of Edison's request. In the event that the base rates established for test year 1978 result in an actual gross revenue increase for 1978 greater than that authorized herein, the difference should be refunded with interest.

Decision on rate design issues in general must await our final decision on Edison's application. We need now address ourselves only to the issue of the most equitable method for spreading the base rate increases authorized herein. Three options are available:

- a. Option I: Edison's uniform cents-per-kwh basis for domestic nonlifeline in excess of 300 kwh per month and for other classes as shown in Appendix D to its motion;
- b. Option II: A uniform percentage increase by class, excluding an increase in domestic and lifeline rates for the first 300 kwh of monthly consumption; and
- c. Option III: CMA's uniform percentage increase with a shift of the lighting and small power revenue requirements to domestic customers.

Option I results in greater percentage increases for classes with below average cents-per-kwh rates.

Option II keeps the same relative position for rates by customer classes. If the proposed ECAC decrease were authorized, some customers' bills would increase and others would decrease.

Option III is a proposal to shift the Option II requirements of the lighting of small power class to domestic customers.

We will adopt Option I as the most equitable method of spreading the authorized base rate increase. Appendix C, attached hereto, shows the revenue spread by customer class offset by ECACBF revenues, together with adopted rates.

The arguments attacking the rationale of the ECACBF and waiver of the current ECAC increase are valid. The ECAC options we will consider are as follows:

- a. ECAC Option I: Follow Edison's proposal. This would result in no increases in Edison's total revenues.
- b. ECAC Option II: No reduction in the ECACBF in this decision. All customer classes would pay increased rates. The total increase authorized in this decision would be \$102,129,000.
- c. ECAC Option III: Follow ECAC Option I but eliminate Edison's right to recoup the drop in ECAC revenues from the effective date of this order until the 1979 test year rates become effective.
- d. ECAC Option IV: Follow ECAC Option I, allow the balancing account balance to approach zero and set a new ECACBF reflecting anticipated energy and purchased power costs based on the evidence adduced in A.57963. This option would provide immediate revenue stabilization and would probably result in a further decrease in the ECACBF. This procedure would permit exploration of the reasonableness of Edison's fuel and purchased power costs.
- e. ECAC Option V: Follow ECAC Option IV but defer the subsequent ECACBF adjustment until the test year 1979 rates go into effect. If ECAC requirements continue to decrease, this method would offset any further general rate relief authorized and would stabilize Edison's revenues and customer billings.

We will adopt ECAC Option I to achieve the results ascribed to that option.

Findings

1. The Commission established the Plan to expedite the processing of major general rate increase applications with a goal of issuing a decision in the application within one year after the filing of the application.

2. The Executive Director of the Commission, acting for the Commission, wrote Edison to inform the company that the Commission would consider granting partial rate relief not later than August 31, 1978 if warranted at that time. The parties were advised of this letter, and copies were made available to them at the prehearing conference in this proceeding.

3. Edison requested partial rate relief of approximately \$178.1 million based on the test year 1978.

4. The 1979 test year decision may not be issued by October 6, 1978. It is appropriate to consider Edison's motion.

5. All of the parties have had a reasonable opportunity to participate in this proceeding. The record was sufficiently developed at the time responses to Edison's motion were filed to meaningfully weigh the issues disposed of herein. Subsequent testimony did not alter the positions of the parties concerning the issues dealt with in this decision.

6. The amount of increase requested by Edison is excessive.

7. The adopted summary of earnings for 1978 estimated year results of operation is a 7.73 percent rate of return.

8. Edison's last authorized rate of return of 8.8 percent included a 12.63 percent return on equity.

9. For this partial increase, the adopted rate of return of 8.98 percent based on updated embedded costs of debt and senior equity for 1978 and a return on common equity of 12.63 percent allowed in Decision No. 86794 is reasonable.

10. The gross revenue increase for California jurisdictional sales based on a 1978 test year to arrive at an 8.98 percent rate of return is \$102,129,000.

11. Our adoption of the Commission staff results of operations, modified as described in the opinion, and the authorization of ~~rates~~ ^{rates} designed to produce our last authorized ~~rate~~ ^{rate} of return on ~~rate~~ ^{rate} base is just and reasonable for the resolution of the initial phase of this matter in the light of the current economic situation and of the posture of this proceeding.

12. The increases authorized herein should be subject to refund at 7 percent interest to the extent that the base rates established for the test year 1978 result in an actual gross revenue increase for 1978 greater than that authorized herein.

13. Base rate increases should be based on Option I described herein.

14. ECACBF decreases should be based on the uniform ¢/kwh basis described herein.

15. The increases in rates and charges authorized herein are reasonable for purposes of granting a partial general rate increase and the present rates and charges insofar as they differ from those prescribed herein are for the immediate future unjust and unreasonable.

16. Appendix B attached hereto contains adopted results of operations and gross revenue increase in base rates.

17. Appendix C attached hereto contains the rates authorized herein.

18. Edison is a respondent in OII No. 19 an investigation on the Commission's own motion into the effect of the addition of Article XIII-A in the California Constitution (known as the Jarvis-Gann Initiative). The increase in rates ordered herein should be

subject to the filing of an advice letter pursuant to OII 19 issued June 27, 1978 requesting a rate reduction based upon the estimated reduction in ad valorem taxes on utility property as of July 1, 1978. In the absence of such a filing, the rate increase hereby authorized should automatically terminate. The rate in effect immediately prior to the increase ordered herein should apply thereafter and the utility should immediately file appropriate tariffs in compliance with General Order No. 96-A.

19. Applicant should be directed to establish a tax initiative account pursuant to OII 19 issued June 27, 1978.

20. As Edison requires prompt rate relief the effective date of the order should be the date hereof.

The Commission concludes that Edison's motion for a partial general rate increase should be granted to the extent set forth in the order which follows.

ORDER ON MOTION FOR PARTIAL
GENERAL RATE INCREASE

IT IS ORDERED that:

1. Southern California Edison Company is authorized to file the revised rate schedules, with changes in rates, charges and energy cost adjustment billing factor (ECACBF), and conditions as set forth in Appendix C attached hereto and concurrently to cancel and withdraw presently effective schedules for electric service. Such filing shall comply with General Order No. 96-A. The effective date of the new and revised schedules shall not be earlier than one day after the effective date of this order. The new and revised schedules shall apply only to service rendered on and after the effective date.

2. The increases authorized herein shall be subject to refund at seven percent interest to the extent that the base rates established for the test year 1978 result in an actual gross revenue increase for 1978 greater than that authorized herein.

3. ECACBF decreases shall be based on Option I described herein.

4. The increase in rates ordered herein is subject to the filing of an advice letter on or before August 1, 1978 requesting a rate reduction based upon the estimated reduction in ad valorem taxes on applicant's property as of July 1, 1978. In the absence of such a filing the rate increase hereby authorized shall automatically terminate on August 1, 1978. The rates in effect immediately prior to the increase ordered herein shall apply thereafter and the applicant shall immediately file appropriate tariffs in compliance with General Order No. 96-A.

5. Applicant is directed to establish a tax initiative account pursuant to Commission OII 19 issued June 27, 1978.

The effective date of this order is the date hereof.

Dated at San Francisco, California, this 25th day of JULY, 1978.

*I will concur and dissent -
William Snow, Jr.*

Robert Bateman
President

Terrence L. Johnson
Robert W. Hoyle
Clare J. Deibel
Commissioners

APPENDIX A
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LIST OF APPEARANCES

Applicant: Rollin E. Woodbury, Robert J. Cahall, William E. Marx, and H. Robert Barnes, by William E. Marx, Carol B. Henningson, and Richard K. Durant, Attorneys at Law.

Protestants: Sylvia Siegel, David Gray Tishman, Attorney at Law, and Robert Spertus, Attorney at Law, for TURN, Consumer Federation of California, and Citizens of a Number of Cities in Edison Service Area; Burt Wilson, for CAUSE; and James F. Sorensen, for Friant Water Users Association.

Interested Parties: Overton, Lyman & Prince, by Donald H. Ford, Attorney at Law, for Southwestern Portland Cement Company; Thomas S. Knox, Attorney at Law, for California Retailers Association; Jonathan Blee and Christopher Ellison, Attorneys at Law, for California State Energy Resources Conservation and Development Commission; William L. Knecht, Attorney at Law, and John Cecil, for California Association of Utility Shareholders; Robert P. Will, General Counsel, Carl Boronkay, Assistant General Counsel, and R. D. Twomey, Jr., Deputy General Counsel, for The Metropolitan Water District of Southern California; Regulatory Law, U.S. General Services Administration, by John L. Mathews, Western Area Chief Counsel, Allie G. Latimer, General Counsel, and Spence W. Perry, Assistant General Counsel, for Executive Agencies of the United States; Alex Googooian, Attorney at Law, for City of Bellflower and City of La Mirada; Brobeck, Phleger & Harrison, by Gordon E. Davis, William H. Booth, and James M. Addams, Attorneys at Law, for California Manufacturers Association; Glen Sullivan and Allen Crown, Attorneys at Law, for California Farm Bureau Federation; Lawler, Felix & Hall, Richard D. De Luce, by Charles L. Rogers, Attorney at Law, for Air Products and Chemicals, Inc.; Stephen A. Edwards, Attorney at Law, for San Diego Gas & Electric Company; Graham & James, by Boris H. Lakusta, David J. Marchant, and Jerry J. Suich, Attorneys at Law, for California Hotel & Motel Association and Western Mobilehome Association; Office of the General Counsel, by Allen B. Wagner, Attorney at Law, for The Regents of the University

APPENDIX A
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LIST OF APPEARANCES

Interested Parties: (Continued)

of California; McNeese, Wallace & Nurick, by H. R. MacNicholas, Attorney at Law, for Airco, Inc.; Robert W. Russell, by Manuel Kroman, for Department of Public Utilities and Transportation, City of Los Angeles; John P. Terry, for City of Los Angeles, Department of Water and Power; Louis Possner, for City of Long Beach; Karl A. Johnson, for Association of California Water Agencies; William Byrne, for POWER; Downey, Brand, Seymour & Rohwer, by Philip A. Stohr, Attorney at Law, for General Motors Corporation, Otis M. Smith, General Counsel, and Julius Jay Hollis, Attorney at Law; T. W. Anderson, for General Portland, Inc.; and Robert P. O'Brien, for himself.

Commission Staff: Timothy E. Treacy, Attorney at Law, Kenneth J. Kindblad, Kenneth K. Chew, and Thomas Lew.

Southern California Edison Company
California Jurisdictional
1978 Estimated

	: Ex. 47-1 : Amount	: Adjustment : (\$ thousands)	: Adopted : Results
<u>Operating Revenues</u>			
Operating Revenues	\$1,018,023	-	\$1,018,023
Conservation Revenues	-	(11,472)	(11,472)
Service Charges	-	5,730	5,730
Connection Charges	-	-	-
Total	1,018,023	(5,742)	1,012,281
<u>Operating Expenses</u>			
Production	136,544	-	136,544
Transmission	35,074	-	35,074
Distribution	75,025	-	75,025
Customer Accounts	37,502	397 ^{1/}	37,899
Uncollectible	2,663	(15)	2,648
Energy Management	16,434	-	16,434
Administrative & Gen.	93,363	-	93,363
Franchise Requirements	8,110	(47)	8,063
Wage Adjustments	(13,463)	13,463	-
Depreciation	157,312	-	157,312
Taxes-Other	113,696	-	113,696
Income Taxes	51,102	(10,294)	40,808
Total	713,362	3,504	716,866
Net Revenue	304,661	(9,246)	295,415
Rate Base	3,824,018	-	3,824,018
Return	7.97%	-	7.73%
Authorized Return	8.98%	-	-
Deficiency	8.98 - 7.73 = 1.25%	-	-
Net Revenue Increase	.0125 x \$3,824,018 = \$47,800	-	-
Net-to-Cross-Multiplier	2.1366	-	-
Gross Revenue Increase	=47,800 x 2.1366 = \$102,129	-	-

(Red Figure)

^{1/} Postage Adjustment

APPENDIX C

Southern California Edison Company
 Authorized Revenue Changes
 California Jurisdictional
 1978 Estimated

<u>Customer Class</u>	<u>Base Rate Revenue Million \$</u>	<u>ECAC Revenue Million \$</u>	<u>Net Revenue Effect Million \$</u>
<u>Residential</u>	15.9	15.9	0
Lifeline	0	0	0
Nonlifeline	15.9	15.9	0
Agricultural	2.5	2.5	0
Commercial	33.5	33.5	0
Industrial	38.5	38.5	0
Other Public Authorities	11.7	11.7	0
<u>Total</u>	<u>102.1</u>	<u>102.1</u>	<u>0</u>

An increase is authorized in nonlifeline base rates of .232 cents per kwhr.
 A decrease is authorized in nonlifeline ECACBF rates of .232 cents per kwhr.

Partial General Rate Increase for Southern California
Edison Company

COMMISSIONER WILLIAM SYMONS, JR., Concurring in Part
Dissenting in Part

Today's \$102 million dollar decision is yet another in a string of "no increase increases" which the Commission majority has foisted on the utility customers. Reviews of CPUC actions over the last eight months would lead you to believe a "New Age of Alchemy" has dawned in California. The Commission majority seems to have discovered how to make gold out of lead.

At the outset, I would concur that regulatory lag requires partial general increase at this time. In this, I agree with that portion of the decision which grants an increase because of rising costs of utility operations. The procedure of partial general relief is consistent with our pledge to the legislature to take remedial steps to deal with the problem of aggravated delay.

Yet, the Commission should not be playing fast and loose with the ratepayers. I strongly disagree with the other half of this decision which juggles the accounts of the utility so that the consumer is unaware of rate increases; so that the consumer feels nothing.

I see this as more of the cunning flim-flammery which makes "getting past" the November 7th election day without noticeable major rate increases to the domestic class the most important factor in our rate decisions.

Consider the record. The first in a string of serious irregularities began on December 20, 1977 with Pacific Gas and Electric, Decision No. 88262. It traded the utility \$71 million in increases in electric rates in exchange for two years of rate "stabilization". Decision No. 88262 "accomplished" this by tampering with the ECAC Energy Cost Accounts. The unhealthy ramifications of this scheme did not surface due to rapid end to the drought in early 1978.

Next, in natural gas, enormous refunds which were to have been repaid to over-paying 1972-1976 customers instead were diverted to pay for this year's gas supplies for 1978 customers. This was done despite the fact that because of gas curtailments the two classes of customers were not the same. As long as there were refunds to plunder, 1978 rates do not have to rise. The Commission diverted customer refunds in the amount of \$52 million in PG&E's service area. (D.88261) (December 20, 1977). The Commission diverted customer refunds in the amount of \$82 million in Southern California Gas Company's service area. (D.88751, April 19, 1978). This great hijacking occurred even in the face of legislative action to require that refunds be returned to customers on the basis of "who overpaid how much". (Public Utilities Code § 453.5, Effective September 19, 1977).

The Commission resorted to a third expedient to keep-prices-down, for the immediate short-run. It is called "S.A.M." It was spawned on May 16, 1978 (D.88835). S.A.M. is an acronym that supposedly stands for "Supply Adjustment Mechanism", but truthfully

it should be labelled "S.C.A.M.", for that's what it is. S.C.A.M. could more informatively stand for "Sly Cover-up Adjustment Mechanism". Whereas most people might believe S.A.M. is designated to handle supply variations, its central feature is the provision for surcharges beginning January 1, 1978 to make up for unrealized sales by the utilities through the summer of 1977. S.A.M. allows this Commission to cover-up the mess it created when the Commission mandated an unworkable rate design^{1/} and gas sales plummeted.

The utilities privately notified the Commission of the tremendous fall-offs in sales this spring that were occurring under the new Commission-ordered rate designs. The utilities called for remedial changes in rate design. Instead, needed rate changes were put off by the Commission majority. The utilities, whose sales continue to be down, were safeguarded from harm by the Commission by means of S.A.M. While S.A.M. takes care of the utilities, it simply takes the consumer. As I indicated in my dissent to the S.A.M. decision^{2/}, it is estimated that surcharges which amount to \$67 million for Southern California Gas Co., and to \$85 million for PG&E will hit the customers like a "New Year's Day Hangover" on January 1, 1979. Until that time, the meter in the taxi cab continues to run: deficits pile up in the S.A.M. account. The consumer is unaware of the trouble ahead.

Through all these serious departures from regular regulation, time is being bought. The cost is regulatory integrity, and the

^{1/} D.87585, D.87586, D.87587. Natural Gas Rate Revision Decisions, July 12, 1977.

^{2/} D.88835 in C.10261, Symons Dissenting Opinion, May 16, 1978.

customer pays the price. By evading "unsettling" pre-election rates a political goal has been achieved. But have these actions been in the public interest?

The Commission Abuses the Fuel Clause and the Ratepayer.

The Energy Cost Adjustment Clause (ECAC) is intended to be just that -- a mechanism which narrowly and expeditiously adjusts fuel used in the production of energy.

It was this characterization that allowed the California Supreme Court to rule that ECAC was not part of general ratemaking and therefore not restricted by the general prohibition against retroactive ratemaking. Citing ... "the narrowly restricted and semi-automatic functioning of an adjustment clause", the Supreme Court differentiated its operation strongly from the "...true ratemaking proceeding, in which many variables are taken into account and broad policies are formulated".^{3/} The Commission did not demur to this delineation.

But now that the court challenge is over the Energy Cost Adjustment Clause procedures are "not so separate" after all. The Commission feels quite at liberty to invade the fund, to raise and lower the billing factor at will.

The new energy clause (ECAC) was adopted formally by this Commission. Affected parties were given notice of its provisions. Among its definite provisions are those which call for six month revisions, and then only in accordance with identified calculations and criteria.

^{3/} Southern California Edison v. Public Utilities Commission 20 Cal. 3d.813, p. 829.

ECAC does not include the provision for irregular ECAC billing factor reductions in order to allow them to be played off against general rate increases. It is an abuse of the ECAC mechanism by the Commission to manipulate the fuel factor to mask the allowance of major increases in general rates. Raising general rates while dropping ECAC rates does not benefit the utility customer. One dubious plus is that it operates like novocain - the rate increase occurs but is not felt. However, the Commission does not forgive the balance due the ECAC fund. This amount must still be paid-off dollar for dollar. The ratepayers therefore will pay for longer time. The delay does not harm the utilities since they receive 7% interest on the money due. Further, the utility experiences an increase of profit because this is provided by the base rate increase.

A "down home" analogy to this transaction would be your renegotiation of a loan with a money lender. The lender may "give you a deal" whereby you pay less per month, provided you still repay the full principle over the longer period of time. The sweetner for the lender is that he increases the rate of interest you have to pay thereby increasing his net profit. Not only do you remain indebted longer, but your total cost of repayment substantially goes up. Similarly, these ECAC manipulations are more costly to the ratepayers.

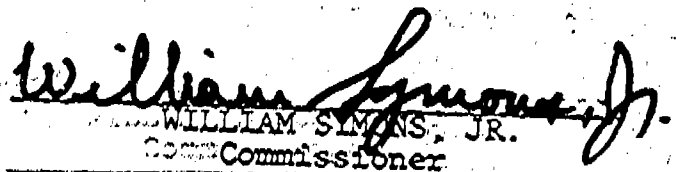
I also object the thoughtless way today's order makes substantial changes in rate design. The Commission majority completely fails to discuss the proper assignment of the burden of this increase upon customer classes. They blythely increase base

rates on an across-the-board .1¢ per therm basis. Raising or lowering ECAC on this basis may be permissible because a rough correspondence exists between increased units of fuel costs and increased units of power. Raising and lowering base rates on this basis is not fair because of the great divergence between cost of service for non-fuel factors and units of power a customer uses.

It is worthy of noting that today's percentage increase in base rates for the large customers for this partial increase exceeds the percentage increase proposed for the entire general rate increase. This across-the-board increase amounts to a percentage increase for the large customer that is 300% higher than that for the domestic customer. This continues the Commission's unwise policy of placing punishing and unjustified rate increases on the business and industrial sectors of this state. The business climate in California continues to deteriorate as a result of such needless actions by state agencies.

I would urge that since this rate increase is considered interim, we take serious steps to correct this malallocation in the final decision on this rate increase application.

San Francisco, California
August 8, 1978


WILLIAM SIMONS, JR.
Commissioner