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ORIGINAL

Decision No. 90488 JUL 3 1979

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 Factors. | Application No. 58393 (Filed October 2, 1978) |

John R. Bury, David N. Barry, William E. Marx, and Richard K. Durant, by Richard K. Durant and William E. Marx, Attorneys at Law, for applicant.
Burt Wilson, for Campaign Against Utility Service Exploitation (CAUSE), protestant.
Brobeck, Phleger & Harrison, by Gordon E. Davis and William H. Booth, Attorneys at Law, for California Manufacturers Association; 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; V. Edward Duncan, for himself; Jonel C. Hill, by W. G. Sebenius, for Southern California Gas Company; Thomas S. Knox, Attorney at Law, for California Retailers Association; Henry F. Lippitt, 2nd, Attorney at Law, for California Gas Producers Association; Robert W. Schempp, for Metropolitan Water District; and Glen J. Sullivan, Attorney at Law, for California Farm Bureau Federation; interested parties.
Patrick J. Power, Attorney at Law, and Raymond H. Charvez, 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 Santa Catalina Island. Edison states that based on projected sales, its proposed increase is equivalent to an increase of approximately 3.2 percent or $71 million in annual retail revenues beginning November 1, 1978.

Public hearing was held before Administrative Law Judge N. R. Johnson at Los Angeles on February 14, 15, and 16, 1979, on February 23 and 24, 1979, and on March 7, 1979, and the matter was submitted upon receipt of concurrent reply briefs due April 11, 1979. Testimony was presented on behalf of Edison by one of its senior rate specialists, R. J. Jensen; by a supervising engineer in the power contracts division, C. E. Crabtree; by its manager of steam generation, R. S. Currie; by its treasurer, M. L. Noel; by one of its rate structure engineers, N. L. Codd; and by a consultant employed by SRI International, Stanford Field. Testimony was presented on behalf of California Manufacturers Association (CMA) by a utility rate analyst, D. J. Reed, and on behalf of the Commission staff by a senior utilities engineer, Richard Finnstrom, and by a public utility financial examiner II, J. Archie Johnson.

Concurrent opening briefs were filed by Edison, the Commission staff, CMA, California Retailers Association (CRA), and General Motors Corporation (GM), and concurrent reply briefs were filed by Edison and the Commission staff.

History

D.85731 dated April 27, 1976 in C.9886, our investigation into electric utility fuel cost adjustment tariff provisions and procedures as modified by D.86484 dated October 13, 1976, is the generic decision providing the bases for the establishment of an energy cost adjustment clause (ECAC) for the respondent utilities, including Edison.

By Resolution No. E-1604, issued and effective October 13, 1976, this Commission made effective Edison's new ECAC tariff as filed in Advice Letter No. 429-E (Supplemental) concurrently replacing Edison's then existing fuel cost adjustment clause and ordered Edison to file an application for revision of its ECABF. A.56822 complied with this order and D.86760 dated December 21, 1976 on this application reduced the ECABF from 0.949 cents per kWh to limit the revenue reduction to $50.5 million to correspond to the amount of increase granted by D.86794 dated December 21, 1976 on Edison's general rate increase application, A.54946.

D.87429 dated June 7, 1977 on Edison's A.57199 for authority to increase its ECABF provided for no increase in the domestic lifeline blocks, increased the ECABF rate to 1.075 cents per kWh for domestic nonlifeline sales in excess of 300 kWh per month, and increased the ECABF rate for all nondomestic sales to 1.049 cents per kWh. The higher non-lifeline domestic rate resulted from spreading the domestic service increase over the tail block to encourage conservation. This procedure was continued for Edison's subsequent applications to modify its ECABF as contained in D.87838 in A.57399, in D.88340 in A.57587, and also in D.89130 and D.89711 dated December 12, 1978 in Edison's A.57602 for a general rate increase. In this latter decision, the 0.732 cents per kWh energy charge included in base rates was transferred to ECAC so that all the fuel cost and purchased power will be computed under the ECAC. The inclusion of one percent allowance for

uncollectibles and franchise tax resulted in the reduction of all base rate energy charges and a corresponding increase of all ECABF by 0.739 cents per kWh.

General

In a letter to Edison dated April 20, 1978, this Commission stated that it is concerned with the implications of the currently unsettled energy supply situation for electric utilities and requested Edison to retain an independent consultant to assess Edison's fuel procurement practices and, in particular, to assess the situation regarding losses associated with the procurement of oil. In compliance with this request Edison retained SRI International to appraise its fuel procurement policies. An appraisal of Edison's fuel procurement policies was introduced into evidence by Stanford Field, a principal investigator of SRI International. He testified as to his general conclusions that Edison has exhibited foresight, assiduity, prudence, and a sense of public responsibility in the pursuit of its objectives of providing a reliable source of electricity at reasonable prices in an environmentally acceptable manner. No party to the proceeding contested or took issue with these conclusions.

The Commission staff's Utilities Division and Finance Division witnesses recommended that a total of $41,459,000 of the requested $71 million increase requested by Edison be disallowed. This total recommended adjustment consists of the following component parts:

1. Increased fuel oil expense of $32,062,000 resulting from the operation of coal-fired generating plants below 60 percent capacity factor during the 12 months ended August 31, 1978 proposed by the Utilities Division.

2. Adjustment to fuel and purchased power expense of $7,798,000 to reflect the differential between economy energy sales revenues and the incremental fuel cost of generating energy for such sales proposed by the Finance Division.

3. Fuel procurement and contract administrative expenses of $1,371,000 proposed by the Finance Division.

4. Energy costs associated with sales to the Department of Water Resources (DWR) in excess of purchases from DWR of $228,000 for the 12 months period ended August 31, 1978 as proposed by both the Utilities Division and Finance Division.

In addition, the Commission staff proposed a time variable ECABF for the TOU-8 rate schedule. This proposal was vehemently opposed by CMA, CRA, and GM, and Edison stated its preference that this Commission not order such a rate until it can be considered in the context of a general rate case.

Both Edison and the Commission staff proposed a single nonlifeline ECABF rate to replace the existing domestic non-lifeline and nondomestic ECABF rates. Such a rate would result in a greater increase to nondomestic sales than to domestic nonlifeline sales and is opposed by CMA, CRA, and GM.

Coal Plant Capacity Factor

Testimony by the staff's senior utilities engineer indicated that Edison's coal-fired facilities, Four Corners and Mojave, have not manifested a significant improvement in efficiency since 1972 as shown by experienced average yearly capacity factors, ranging from 47 percent to 71 percent at Four Corners and from 45 percent to 61 percent at Mojave. According to the testimony, the staff believes that sufficient time has lapsed that Edison should have achieved its previously

projected higher capacity factors. The staff believes that it is not unreasonable to expect Edison to achieve an annual capacity factor for each of its two coal facilities in excess of 60 percent. Consequently, it is the staff engineer's recommendation that ECAC include an adjustment to the balancing account equal to the difference in the cost of generation between coal and oil fuel for the kWh equivalent between the experienced capacity factor and the recommended 60 percent capacity factor. Such an adjustment would be applicable only for experienced operation below a 60 percent capacity factor and would not reward Edison for the operation of its coal plants at a capacity factor in excess of 60 percent. For the record period, the staff's proposed adjustment would amount to $32,062,000.

Rebuttal testimony to the staff's presentation was given by Edison's manager of steam generation. He summarized the outages, both scheduled and unscheduled, for Mojave Units Nos. 1 and 2 and Four Corners Units Nos. 4 and 5, by date, time span of each outage, and the reason for each outage, for 1976, 1977, and the first nine months of 1978. He noted that the capacity factor at Mojave has been on a steady upward climb since its initial operation and exceeded the industry average for coal units of 400 MWh and larger sizes from 1974 to 1977. The capacity factor dropped below the industry average in 1978 due primarily to an outage of Unit No. 1 for the period December 1977 to July 1978. This prolonged outage was necessary to rectify incorrect pretensioning at the time of installation and to repair defective pipe welds. Mr. Currie further testified that in an attempt to compensate

for Unit No. 1 being out of service for such a prolonged period, Unit No. 2 was maintained on the line past its scheduled maintenance, resulting in a decrease in reliability and an increase in unscheduled outages for this unit in the latter part of 1978.

Unit No. 4 at Four Corners was reportedly unable to be returned to service as scheduled after a routine overhaul because of turbine vibration problems and tube leak problems followed several months later by water wall problems necessitating replacement of 2,000 of the water wall tubes.

Numerous programs were instituted at both Mojave and Four Corners in an effort to improve the capacity factors at these plants. Such programs included structural modifications and plant additions, an intensive research and development program into the design and materials of centrifuges, replacement of plant, and the implementation of seven-day-a-week maintenance coverage.

At the time these plants were designed and constructed, because rates were based on an average year basis, the risk that these plants would not operate up to expectations was borne by investors. Currently, under ECAC, the risk is effectively shifted to the ratepayers. The staff proposed adjustment has merit in that it tends to remove some of the risk from the ratepayers yet it is deficient in two respects.

First, although billed as an incentive, the staff proposal does not contemplate any reward to the utility for superlative performance. A true incentive plan should include both penalties for performance below and reward for performance above standard. Second, the staff proposed adjustment is based on a minimum capacity factor of 60% for a 12-month period. Edison's testimony indicates that 55% is perhaps the highest capacity factor attainable for these plants over a long period of time.

It is apparent that a more complete incentive proposal should be prepared and more study will be required before we can adopt a minimum capacity factor on which to base incentives. Consideration should also be given to the idea that for coal-fired generating plants, the period over which capacity factor is measured should be greater than 12 months. We will direct that Edison prepare such a proposal and address the question of minimum capacity factor as a part of its next ECAC application. This will be the application for rates to become effective November 1, 1979.

Further in this regard, we note that we have earlier ordered a management study to be undertaken by Edison (D.89711). The record in this proceeding supports the inclusion of Edison's coal plant operating practices and procedures in such a study and, in view of the circumstances, we think it appropriate that such a study be undertaken outside of the scope of the general study, to be conducted by an independent consultant expert in this area and introduced in a future ECAC proceeding. This study can also supply a basis for developing a reasonable coal plant capacity factor to be utilized as the standard for the ongoing incentive type of rate making discussed above.

Economy Energy Sales

Economy energy sales are sales of energy made by a supplier using power sources which, at the time of delivery, are not fully utilized. The energy is used by the receiver to reduce generation by more expensive units, or to avoid curtailing deliveries to any of its customers.

Edison sold economy energy to Pacific Gas and Electric Company (PG&E), San Diego Gas & Electric Company (SDG&E), and others at a contract cost equal to the incremental energy cost plus a specified percentage ranging from 10 to 15 percent of the total incremental generation cost. Edison accounts for the revenue from its economy energy sales in Account 447, Sales for Resale, and reduces the recorded fuel and purchased power expense for the ECAC calculations by the incremental generation costs and related megawatt-hour sales of this economy energy which has the effect of removing these expenses and sales from the ECAC balancing account.

The staff's financial examiner takes the position that such an accounting procedure is contrary to the procedure specified in the Uniform System of Accounts and that the proper method would be to credit Account 555, Purchased Power, with the gross economy energy revenues. This witness testified that he believes that economy energy sales are a form of mutual assistance between the utilities made in conjunction with the interconnection agreements, and are not separate and distinct sales. It is his further opinion that since the ratepayers are called upon to bear their portion of the cost of the facilities used to generate the economy energy, it is only appropriate that they should receive the benefit from the sales. The adjustment recommended by the staff's financial examiner is computed to be $7,031,000 for the economy energy sales plus $767,000 interest, a total of $7,798,000.

Rebuttal testimony presented by Mr. Currie indicated that, aside from jurisdictional considerations, Edison's operation and maintenance expense associated with fossil fuel generation was above budgeted amounts, a large part of which was the direct result of these economy energy sales, mostly to PG&E. The additional expenses incurred by Edison for economy energy sales reportedly involve such expenses as more frequent boiler and air preheater washing, additional make-up water, additional chemical requirements, additional manpower for the startup of support units, and higher long-term maintenance and overhead costs. Mr. Currie testified that these additional expenses are not covered in base rates and that offsetting revenues intended to cover such increased costs against fuel expense in the ECAC proceeding, as proposed by the Commission staff, would be grossly unfair.

Additional rebuttal testimony was presented indicating Edison's position that economy energy sales were actually sales for resale and therefore subject to the jurisdiction of the Federal Energy Regulatory Commission (FERC) rather than to the jurisdiction of this Commission. According to the testimony, if this Commission used the economy energy sales revenues to offset costs of providing retail service, the FERC could decide that such revenues should be disallowed in connection with sales subject to its jurisdiction. As a result, according to Edison's witness, the revenues would not then be available to offset increased operating and maintenance costs associated with off-system sales and general inflation, and Edison's earnings would decline further.

In general rate proceedings on electric utilities under our jurisdiction, the results of operation presentations contain mandated jurisdictional allocations between sales made under this Commission's jurisdiction and those made under FERC's jurisdiction. The jurisdictional mandate is set forth in Federal Power Commission v Southern California Edison (1964) 376 US 205, 11 L ed 2d 538, 84 Sup Ct 644.

However, because drought conditions, such as those that led to the unprecedented sales to PG&E by Edison, are atypical of a future test year, the ratemaking basis used in a general rate proceeding can be rendered largely ineffective. We should, therefore, focus on how, if at all, the ECAC procedure, with revenues and energy costs computed and considered on a historical basis, should be utilized to apportion economy energy sales revenues in excess of the incremental fuel costs of generating the energy so sold.

Under ECAC, the "amount of revenue, if any, billed during the month for the fuel and purchased energy component of off-system transactions" (Section G.7.d., of the Preliminary Statement, Edison tariffs) is deducted from the balancing account. This serves to assure that Edison's ratepayers are not burdened with fuel or purchased energy costs that it has already recouped through the revenues received from PG&E. It also serves to raise several collateral questions: Does the remainder (i.e., the difference between the gross revenues and the incremental fuel costs) equate predominantly to expenses and to return on rate base already allowed for in base rates or predominantly to offsetting costs that absent these sales would not have occurred? If it is the former, a similar treatment to that accorded the incremental

fuel costs of such sales appears to be warranted. If it is the latter, the remainder should be retained by the utility to offset the additional costs with the caveat that the estimating techniques used to develop representative test year operation and maintenance expenses in future general rate proceedings should guard against trending in those additional costs to prevent them from being recovered twice.

As to the matter of jurisdictional separations, they are required just as much for the portion of the cost of service for the sales to PG&E remaining after deducting the incremental fuel costs as for the incremental fuel cost itself. Clearly, the Edison ratepayer should not be burdened by costs of service recouped by Edison through sales to PG&E. Since proper cost allocations by jurisdictions should yield such a result, any measures taken to more closely approach that outcome should be perceived as not only appropriate but needed adjustments to cost allocations by jurisdictions.

While there appears to be a need for materially improving the ratemaking treatment accorded such test year atypical sales as the Edison sales to PG&E, we are not persuaded that it need be done at this time or in this proceeding. In fairness any needed changes should be applied prospectively and with clear ground rules.

We are also not persuaded that accounting changes should be ordered. Edison contends that the accounting treatment of these transactions between the two utilities must remain consistent; that is, they must be treated as a sale on the part of Edison and a purchase on the part of PG&E.

Fuel Procurement Administrative Costs

According to the Commission staff's financial examiner, Edison has included fuel contract and procurement administrative costs as a component part of fuel stock costs with the result that such costs are included in the ECAC balancing account. It is the staff's position that such a procedure is contrary to the generic ECAC D.85731, supra, which provides, in part, "/g/enerally, we think it reasonable to include the direct reasonable cost of fuel and energy and other variable charges directly associated therewith. . . .", and further specifically excludes "...and all costs included in base rates." (79 CPUC 758 at 771) Accordingly, the staff recommends that Edison's ECAC balancing account be reduced by $1,262,000 plus interest.

One of Edison's senior rate specialists, R. J. Jensen, presented rebuttal testimony, indicating its accounting procedure was reviewed by the FERC auditors and no exception was taken to that accounting procedure. He further testified that such costs have been excluded from administrative and general accounts that reflect expense recovered under base rates since 1976 and have therefore been recovered under the ECAC procedure.

In D.89711, supra, we eliminated all fuel, purchased power, and energy-related expenses from adopted revenue and expense estimates to establish base rates that excluded energy and energy-related expenses. This base rate adjustment, however, did not delete "coal station ash handling, coal weighing and gas facilities, Mono Power Service, fuel administration, and Catalina Island fuel expenses." (Footnote 3, mimeo. page 8.) Consequently, these facilities and related expenses were included in the adopted results of operation from which base rates were derived. The staff's proposed treatment of the fuel contract and procurement administrative expenses therefore conforms to D.89771. We will, accordingly, credit Edison's ECAC balancing account by $1,371,000.

DWR Sales

Edison and other utilities have contracts with DWR dating from the mid-1960s. One of these contracts between Edison, PG&E, SDG&E, and the Los Angeles Department of Water and Power, collectively referred to as "Suppliers", relates to the sale of capacity and energy to the DWR for the operation of pumping plants on the aqueduct system of the State Water Project. Energy is sold at 3.0 mils per kWh and capacity at $17 per kW-year. PG&E, SDG&E, and Edison also have a purchase contract wherein they purchase the electric output capacity of the Oroville Dam for approximately 2.59 mils per kWh for energy and $12 per kW-year for capacity and an Extra High Voltage contract wherein the three utilities purchase portions of DWR's entitlement to Canadian Entitlement Power not needed for pumping at a cost of 2.6 mils per kWh for energy and $6.90 per kW-year for capacity.

In previous fuel cost adjustment (FCA) proceedings, the sales to DWR were included in the utilities' sales forecasts, having the effect of computing the FCA rate as though it applied to these sales, while the savings due to the purchases from DWR and others are not accounted for. The burden on Edison's shareholders resulting from this treatment was recognized in our generic ECAC D.85731, supra, wherein we stated: "The three affected utilities maintain this is unfair, and is becoming an increasingly more serious problem as the cost of generating power keeps increasing. We agree with the utilities and will allow them to deduct these sales from total KWH sales in computing the new adjustment factor, to the extent that such sales do not exceed purchases from the state water projects and others." (79 CPUC 758 at 770, 771)

The issue in this proceeding has its genesis in the proper interpretation as to what is meant by "to the extent that such sales do not exceed purchases from the state." Edison alleges that sales should be compared with purchases over the entire contract period whereas the Commission staff believes that the comparison period should be the record period used for the computation of the ECABF. The Commission staff believes that the expense associated with sales in excess of purchases is to be recovered in another proceeding, if at all. The staff notes that in the PG&E general rate proceeding, the expense associated with sales in excess of purchases for the record period was included in base rates and was not treated in the ECAC proceeding. Recently the Commission adhered to the past policy in Decision No. 90404 dated June 5, 1979, in Application No. 58263 of SDG&E by allowing the recovery of such expenses in a general rate case proceeding rather than ECAC.

From the record it is apparent that we must address the issue of whether Edison's expenses associated with sales in excess of purchases should be recovered by the utility through ECAG or in a general rate proceeding. Addressing this question for SDG&E in Decision No. 90404 dated June 5, 1979 in Applications Nos. 57780 and 58263 (ECAC) we concluded that recovery of such expenses (to the extent energy costs exceed DWR sales revenues) should be considered in the test year when setting base rates. However, Edison does not have a pending rate case and if we did not allow recovery of these net costs in ECAC, and no party challenges the prudency of the existing DWR sales contracts, Edison would be denied a ratemaking forum in which to recover the expense. These expenses are not now reflected in Edison's base rates. Accordingly we will allow recovery of net DWR sales expenses through Edison's ECAC until we next set Edison's base rates. At some point it may be desirable to either reopen the generic ECAC investigation, or institute a new investigation, to reassess the ground rules on what should or should not be included in balancing accounts pass through ratemaking. The semiannual ECAC filings should not be used to continually litigate the scope of ECAC because it contributes to delay.

Time-of-Use Pricing

D.89318 dated September 6, 1978 on PG&E's ECAC A.58033 ordered PG&E to present time-of-use (TOU) ECAC rates in its January 1, 1979 ECAC filing for those schedules having TOU rates then in effect. As a consequence, the Commission staff felt it appropriate to present such TOU ECAC rates in

this proceeding. Senior utilities engineer Finnstrom presented an annual time-variable ECABF and, as an alternate, a winter and summer time-variable ECABF. According to the record, the proposed on-peak rate was derived from marginal cost data contained in the staff's Exhibit 55 in Edison's general rate proceeding minus the base rate cost. The mid-peak and off-peak rates were computed residually so that the revenues generated from the TOU ECAC rates would be the same as though a uniform cents per kWh were applied to the TOU rates.

Pursuant to a staff request Edison prepared an exhibit addressing the subject of TOU ECABF. Edison, however, believes that the subject of the application of TOU ECABF should only be addressed in conjunction with a general rate proceeding, not in a proceeding such as this. The rates Edison designed in response to the staff's request reflect the on-peak rates based on the price of low sulphur fuel oil in inventory on August 31, 1978 and the system heat rate for oil generation during the record period; the mid-peak kWh rate is the same as the ECABF rate applicable to nondomestic usage; and the off-peak rate was developed by subtracting the revenue derived from the application of on-peak and mid-peak ECABF to such sales from the TOU-8 total revenue requirement and dividing the remainder by the estimated off-peak sales.

CMA believes that the concept of TOU rates is appropriate where the underlying costs also vary by time of use. It presented exhibits and testimony through a consulting engineer, D. J. Reed. Mr. Reed testified that there is very little variation in the incremental fuel cost experienced

during the day. His exhibits indicated that the average incremental fuel cost during the on-peak period for the months of September and December was approximately 4 mils below the incremental low sulphur fuel cost used to derive the on-peak TOU ECAC rate presented by Edison's witness of 29.15 mils per kWh. Mr. Reed further testified that the variation in the average incremental cost between the on-peak and off-peak period is only 1.07 mils in the summer and 0.96 mils in the winter due primarily to Edison's use of $NO_x$ dispatch rather than Economic Dispatch for programming its generators. CMA notes that the staff's rate proposal was developed on the basis of attempting to induce consumers away from on-peak usage rather than to reflect cost differentials, and argues that the $5.05 per kW differential between on-peak and off-peak usage is much more persuasive for effecting a shift in time of usage than the additional incremental energy differential proposed by the staff.

CMA asserts that the record shows the TOU-8 rate schedule with its $5.05 per kW and 3 mils per kWh differential between on-peak and off-peak usage has resulted in a 2.6 percent on-peak demand shift and a 1.7 percent on-peak kWh shift, and argues that if a TOU ECAC rate is adopted, the revenue requirement should reflect no additional shift in on-peak kWh usage rather than the 5 percent shift assumed because, according to CMA, it is preposterous to assume a 3 mil differential would result in an additional 5 percent shift when the original schedule resulted in only a 1.7 percent shift.

In addition, CMA notes that Edison's proposal of one uniform nonlifeline ECABF would increase the nonresidential rate by 0.182 cents per kWh as contrasted to the increase of residential nonlifeline rate of only 0.054 cents per kWh, and argues that this disproportionate increase would result in nonresidential customers being assessed an unfair proportion of the proposed ECAC increase. The staff and Edison in its exhibits show that the value of ECABF for other than domestic sales is independent of the change from three factors to two factors; therefore, there is no effect on the rates of CMA

In its brief, GM argues that TOU rates of any kind are justified only when TOU differentials relate to actual differences in the utility's cost of producing electricity at different points in time. GM further argues that the record of this proceeding establishes that if the proposed TOU ECAC differentials are adopted on the Edison system, the result would be totally arbitrary and punitive rates devoid of any support in relation to actual Edison system costs or any other legitimate ratemaking objective or standard.

GM points to Finding 30 of D.85559 dated March 16, 1976 in C.9804, our investigation into electric utility rate structures, which states, in part, "/t/ime-of-day pricing which reflects the costs of producing electricity at daily demand peaks should be required on rate schedules covering large usage customers where substantially all the necessary metering equipment already exists. . . ." (mimeo. page 82), and argues that it was clearly this Commission's intent to reflect costs in the design of TOU rates. GM notes that in this proceeding the staff made no attempt to formulate a cost justified differential, but instead proposed that this Commission adopt whatever differential is necessary to induce a further shift of kWh from the on-peak period with

the only point of reference for the staff's proposed differential being the 6 mil differential existing for SDG&E. On the basis of the record, GM urges that any additional ECAC revenues be allocated on a uniform cents-per-kWh basis among all nonlifeline consumption and that TOU ECAC rates not be permitted.

CRA opposes both a single nonlifeline ECABF rate and TOU ECAC rates. With respect to the former, CRA argues that under both Edison's and the staff's proposals, the increase to nondomestic sales exceeds the increase to the residential nonlifeline sales adding an unfair and unwarranted additional $5 million increase to the nondomestic customer groups.

CRA notes that, according to the record, Edison's TOU ECAC rate results in a peak period rate which exceeds marginal cost, and argues that this Commission has acknowledged that from the perspective of economic efficiency, a price which exceeds marginal costs serves as a "wrong signal" to a prospective purchaser and tells him to use too little of the resource: "A price varying from marginal cost is a 'wrong signal'-- it tells prospective purchasers to use too much (or too little, if the price is above marginal cost) of the service in question." (D.85559, supra, mimeo. pages 5 and 6.) According to CRA, this inequity is compounded by the fact that customers billed on schedules other than TOU-8 do not pay a rate even approaching marginal cost. CRA also notes that the record shows that at no time during the winter month of December did the incremental cost of generating energy range as high as the peak period ECAC rate set forth in Edison's TOU-8 ECAC schedule.

CRA further argues that the staff's proposal that the energy rate differential between on-peak and off-peak usage be widened is completely unsupported by the record and that the resultant differential would substantially exceed the differential in marginal costs.

CRA also contends that a 5 percent shift from on-peak energy consumption in computing revenue requirements is unwarranted and should not be used.

It would appear that the present differential of $5.05 per kW and 3 mils per kWh between on-peak and off-peak usage on Edison's TOU-8 schedule provides a ~~very~~ strong incentive to these customers to shift their electric usage from on-peak to off-peak hours to the maximum extent feasible. The fact that apparently such shifting of electric usage is considerably less than anticipated when the rate was implemented may imply ~~would support a conclusion~~ that most of Edison's TOU-8 customers are unable to feasibly change operations so as to concentrate their use of electric energy in the mid-peak and/or off-peak hours. Under these circumstances it would appear that the imposition of an ECAC energy differential may ~~would~~ impose a further economic burden on those customers with little or no likelihood that the object of such differential rates to shift electric load from on-peak to mid-peak or off-peak hours would be achieved. We will, therefore, not authorize such a rate structure at this time, but will continue to monitor the effect of the TOU-8 rates on electric usage and will again consider this matter should such consideration be warranted at a future date. We will also continue our recent practice of spreading the domestic service increase over the tail block only.

Findings of Fact

1. Edison's fuel procurement policies are reasonable and contribute to achieving its objective of providing a reliable source of electricity at reasonable prices in an environmentally acceptable manner.

2. Edison is expending considerable time, effort, and money in an attempt to improve the capacity factors at its coal-fired generating units.

3. After further study, an incentive program that penalizes poor performance and rewards good performance should be adopted for Edison's coal burning power plants. An independent expert consultant should be retained to assess, evaluate and report on Edison's coal plant operating practices, procedures and attainable capacity factors.

4. Edison's present accounting treatment of economy energy sales, i.e., treated as a sale on the part of Edison and a purchase on the part of PG&E, should be continued.

5. The Commission staff's recommended downward adjustment of Edison's ECAC balancing account of $1,371,000 to reflect the elimination of the fuel contract and procurement administrative costs is reasonable.

6. Edison does not now recover the costs of DWR sales in excess of revenues in base rates. If such costs are not recovered in ECAC, Edison would be denied the opportunity to recover such reasonably incurred costs. In the future, sales to DWR in excess of purchases should be considered in a general rate case.

7. It is reasonable for Edison to include all DWR sales and costs in computing the ECABF.

8. The existing TOU differential of $5.05 per kW and 3 mils per kWh between on-peak and off-peak usage on Edison's TOU-8 schedule provides a ~~very~~ strong incentive to these customers to shift their electric usage from on-peak to off-peak hours to the maximum extent feasible.

9. The implementation of a TOU ECAC at this time ~~would~~ may not result in substantial shifting of electric usage from on-peak to mid-peak or off-peak hours, and, therefore, it would not be reasonable to implement such a schedule.

10. It is reasonable to base the ECABF adjustment on an authorized increase of $69,629,000 for the 12-month period beginning September 1978 equal to the original request of $71,000,000 minus the adjustment of $1,371,000 set forth in Finding 5 above.

11. The revised ECABF of 2.379 cents per kWh is reasonable for all nonlifeline sales.

12. It is reasonable to retain the presently effective ECABF of 1.596 cents per kWh for lifeline quantities of electric energy.

13. ECAC should have only two factors, one for lifeline and the other one for nonlifeline.

14. 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 of Law

1. Edison should be authorized to file and to place into effect the authorized ECABF found to be reasonable in the findings 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 will be offset by the rate increase authorized here.

O R D E R

IT IS ORDERED that:

1. Southern California Edison Company is authorized to file and place into effect the revised Energy Cost Adjustment Billing Factor (ECABF) rate set forth above for non-lifeline electric usage.

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

3. The new non-lifeline ECABF shall be 2.379 cents per kWh for all sales except lifeline electric usage.

4. Edison shall prepare as a part of its ECAC application for rates to become effective November 1, 1979, a proposed system of incentives for improved operation of its coal-fired power plants and shall recommend standards of performance for these plants on which to base the incentives.

H-4

A. 58393 Alt.2-CTD-fg

5. In cooperation with the staff, Edison shall select and retain an independent expert consulted to assess, evaluate and report on Edison's coal plant operating practices and the standard of performance that can be expected of these plants.

The effective date of this order is the date hereof.

Dated at San Francisco, California, this 3RD day of JULY, 1979.

John E. Bryson
President

[signatures]
Commissioners