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Decision No. 90967 OCT 23 1979

ORIGINAL

BEFORE THE PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

In the Matter of the Application of SOUTHERN CALIFORNIA EDISON COMPANY for Authority to Modify its Energy Cost Adjustment Clause to increase its Energy Cost Adjustment Billing Factors.	Application No. 58764 (Filed March 23, 1979; amended August 17, 1979)

John R. Bury, William E. Marx, Richard K. Durant, Carol B. Henningson, by William E. Marx and Carol B. Henningson, Attorneys at Law, for Southern California Edison Company, applicant.

Sylvia M. Siegel and Michel Peter Florio, Attorney at Law, for TURN, protestant.

Robert E. Burt, for California Manufacturers Association; Overton, Lyman & Prince, by John Payne, Attorney at Law, for Southwestern Portland Cement; Robert W. Schempp, for Metropolitan Water District; Glen J. Sullivan, Attorney at Law, for California Farm Bureau Federation; Downey, Brand, Seymour & Rowher, by Philip A. Stohr, Attorney at Law, for General Motors Corporation; Otis M. Smith, General Counsel; and Julius Jay Hollis, Attorney at Law; interested parties.

Robert Cagen and Patrick J. Power, Attorneys at Law, for the Commission staff.

OPINION AND ORDER

Applicant, Southern California Edison Company (Edison), requests authority to increase its Energy Cost Adjustment Clause (ECAC) billing factors applicable throughout its service territory except Santa Catalina Island. Specifically, Edison requests authority to raise its Energy Cost Adjustment Billing Factors (ECABFs) to 2.205¢/kWh for the factor applicable to lifeline service and 3.283¢/kWh for other than lifeline service. The recorded period used in support of the request is the year ended July 31, 1979. The requested increase is expected to produce additional annual revenues of about $467 million for the year beginning October 1, 1979.

This application was filed March 23, 1979, and amended on August 17, 1979. The original application was in accordance with applicant's tariff to file for an ECAC adjustment effective May 1, 1979. The amendment was filed to bring into the application the ECAC adjustment to be made according to the tariff on November 1, 1979.

The present ECABFs of 1.596¢ per kWh for lifeline service and 2.379¢ per kWh for other than lifeline service were established by Decision No. 90488 dated July 3, 1979, in Application No. 58393 and also became effective on July 3, 1979. The background and history of Edison's ECAC was discussed in Decision No. 90488 and will not be repeated here.

Hearings on this application were held before Administrative Law Judge Albert C. Porter in Los Angeles on August 7, September 4, and September 17, 1979. The matter was submitted on briefs mailed September 24, 1979.

<u>Decision Summary</u>

By this decision the customers of Edison will pay $431.6 million more for power beginning November 1. The higher charges will only offset the higher costs of fuel used to generate Edison's electric power. Edison requested an increase of almost $467 million but the Commission has reduced that by about $35 million because of Edison's lower than normal coal plant operating capacity factors. That amount could be restored should the results of a study by an independent consultant convince the Commission that Edison's coal plant operating practices are prudent and reasonable.

The largest increase on a ¢/kWh basis will be applied to nonlifeline domestic usage. In an effort to foster conservation of energy, the Commission is establishing a residential rate for usage above lifeline at a level 50 percent higher than the average lifeline rate. The lifeline rate will be increased for the first time by .062¢/kWh, which is a 1.5 percent increase. When combined with the nonlifeline increase of 1.074¢/kWh, the average domestic customer rate will increase by 10.6 percent. For other than residential users, the increase will be .918¢/kWh and range from 20.0 percent to 24.7 percent for agricultural, commercial and industrial customers.

The authorized $431.6 million increase will not increase Edison's authorized rate of return. Residential rates are increased to the extent authorized in large part to encourage customer conservation. The Commission notes with concern that use per average residential customer is increasing, which means, if that trend continues, the need for new and expensive generation facilities (which will dramatically increase rates).

Edison's Evidence

TABLE A

	Cents Per kWh			Percent
	Present	Increase	Proposed	Increase
Domestic Lifeline	4.158	.609	4.767	14.6
Nonlifeline	5.255	.904	6.159	17.2
Total Domestic	4.622	.734	5.356	15.9
Agricultural	4.579	.904	5.483	19.7
Commercial	4.508	.904	5.412	20.1
Industrial	3.812	.904	4.716	23.7
OPA	4.510	.904	5.414	20.0
Total System	4.322	.853	5.175	19.7

Table A is a summary of the recommendation and proposal of Edison that is shown in Appendix A. It will be noted that Edison proposes a 14.6 percent increase in the lifeline rate; that rate has not changed since January 1, 1976, nor had a significant change since November 13, 1974. Public Utilities Code Section 739(c) which states in part, "...The commission shall authorize no increase in...lifeline rates until the average system rate in cents per kilowatt-hour...has increased 25 percent or more over the January 1, 1976, level.", has operated to prevent an increase in lifeline rates until now. The last increase in Edison's rates, effective July 3, 1979, brought the average system increase since January 1, 1976, to 21.8 percent. Granting this application would raise that to 46.6 percent, well above the 25 percent limitation in Section 739(c). The proposed 14.6 percent increase in the lifeline rate is less than the proposed overall system increase of 19.7 percent, thereby making the lifeline rate 92.1 percent of the system average; whereas, it is now at 96.2 percent. Edison claims the increase in lifeline rates is justified because it would bring revenues from lifeline sales more nearly into line with the cost of making such sales. Edison believes that now is the time for the Commission to adopt a standard for fixing the level of lifeline rates and recommends that the lifeline ECABF be established at 75 percent of nonlifeline domestic ECABF with the proviso that the differential which existed at the time the 25 percent level of system average increase over January 1, 1976, was reached should not be reduced. To accomplish this in an approximate way, Edison proposes that lifeline rates not be increased for the $130 million requested in the original application, which, if it had been granted, would have brought the system average increase since January 1, 1976, to 28.6 percent, but that lifeline be increased with all other classes for the supplemental request of about $336 million. Adopting this approach would result in an increase for lifeline of 0.609 cents per kWh to a total of 2.205 and 0.904 for all other classes to a total of 3.283. The recent history of the ECABFs and Edison's proposals are shown in Table B.

TABLE B

	Domestic ECABF¢kWh		
	Lifeline	Nonlifeline	Lifeline as a % of Nonlifeline
Effective 1-1-79	1.596	2.328	68.6
Effective 7-3-79	1.596	2.379	67.1
Proposed 3-23-79	1.596	2.674	59.7
Proposed 8-17-79	2.205	3.283	67.2

There are customer charges and several different types of lifeline rates involved which make it difficult to compare total average charges using tariff rates; however, the overall result can be seen on Appendix A where, under the applicant's proposal, domestic lifeline rates average 4.767 cents per kWh and domestic nonlifeline 6.159, for a relationship of 77 percent.

Edison claims the amendment to the original application was made necessary by several factors: the recent substantial increases in oil prices by the Organization of Petroleum Exporting Countries (OPEC) have resulted in likewise substantial increases in the prices of fuel oil paid by Edison; the increase in the nonlifeline ECABF requested in Application No. 58393 filed October 2, 1978, for a November 1, 1978, revision date under Edison's ECAC was not put into effect until July 3, 1979; and the current application which was originally filed March 23, 1979, for a May 1, 1979, revision date did not have an original hearing until August 7, 1979, thereby providing no possibility of a decision and effective date of May 1, 1979. Edison maintains that the combination of these factors has resulted in substantial recorded undercollections in the energy cost adjustment account (ECAA) causing an adverse effect on Edison's cash flow. The ECAA balance at the end of July 1979 reflected undercollections in excess of $181 million. An exhibit by Edison, reproduced herein as Appendix B, forecasts that the ECAA undercollection balance will grow to almost $268 million by the end of April 1980 even if Edison's request were put into effect October 1, 1979.

Decision No. 90488, supra, ordered Edison, in concert with the Commission staff, to secure an outside consultant to evaluate the operations of its coal plants and recommend standards of performance. A witness for Edison stated that efforts to select a consultant are continuing and it would not be practicable to submit the report required by Decision No. 90488 in this ECAC proceeding. Edison proposes that the results of the consultant's investigation and analysis be submitted to the Commission staff for review as soon as reasonably possible and that that information, together with a coal plant performance incentive proposal, be formally submitted to the Commission in the ECAC application to be filed by April 1, 1980. This would give the consultant an appropriate amount of time for the study and give the Commission the time to effectively consider the recommendations.

California Manufacturers Association's (CMA) Presentation

An engineer representing CMA presented an exhibit and gave testimony on behalf of that organization. CMA urges expeditious handling of this application and does not oppose the amount of rate relief requested. It does, however, have a strong position regarding the manner in which the relief should be spread to the various customer classes. In support of its proposal, CMA points to the long history of ECACs and the normal practice of uniformly applying energy cost increases to all kilowatt-hours used. The uniform kilowatt-hour adjustment method had to be changed when the legislature intervened by passing Section 739(c); but, says CMA, the 25 percent test will be reached by Edison in this application and the Commission may now revert to the equal application method. Accordingly, CMA recommends that the entire $467 million be spread to all classes on a uniform cents per kilowatt-hour basis. Although that is CMA's recommendation it went even further to support its case by saying that a sound basis exists for allocating more than the average increase to the residential class. In support of that concept, it argued that (1) losses in distribution are higher for the residential class than for the nonresidential, and (2) if the Commission were to use marginal cost analysis as a basis for allocating energy costs, the result would increase the residential charges a greater amount than the system average, and (3) low sulfur fuel oil (LSFO) is the large volume, high unit cost, marginal fuel used by Edison and the residential class is primarily responsible for increased use of LSFO because the residential class usage is growing at a much faster rate than any other user class. (See Table C.)

As a final argument for increasing lifeline rates the equivalent of average system, CMA maintains that experience indicates that lifeline rates do not foster conservation. It points to the data in Table C to support that position. Also, it presented a copy of Exhibit 14 of Witness Amaroli in OII 43 which shows that for the last one-year period of the exhibit (March 78-March 79) residential usage per customer for Edison increased 6.6 percent.

TABLE C

	Estimated M^2kWh Twelve Months Starting		
	May 1, 1978	October 1, 1979	% Increase
Domestic	14,840	16,547	11.50
Agricultural	1,100	1,107	0.64
Commercial	14,085	14,837	5.34
Industrial	16,995	17,456	2.71
Public Authority	4,845	4,781	-1.32
Total	51,865	54,728	5.52

Staff's Evidence

Two witnesses testified for the Commission staff, an engineer and a financial examiner. Both recommended the Commission grant the requested rate increase.

The financial examiner conducted an audit of financial records used in the calculation of Edison's ECABF. The audit covered the six-month period from September 1, 1978, through February 28, 1979, and essentially was an update of the last audit made for the ECAC adjustment filed October 2, 1978, in Application No. 58393, Decision No. 90488, supra. The objectives of the audit were to ascertain (1) whether the record period quantities and current unit price used in the calculation of current costs were determined in accordance with the preliminary statements in Edison's tariff, and (2) whether the ECAC balancing account was maintained in compliance with the preliminary statement in conformance with generally accepted accounting principles and ratemaking regulations. The audit included reviewing recorded transactions in the balancing account to ascertain that the account is maintained in accordance with the preliminary statement, verification of the ECABF calculations, a test check of fuel oil purchases, inventory levels, purchased power quantities and unit prices, and natural gas quantities and unit prices, a review of gross operating and related ECAC revenues, a review of the Chevron fuel oil facilities charge (underlift) and related impact on Edison's fuel oil costs, and, finally, a review of Mono Power Company fuel service charge, Mono Power Company being a wholly owned subsidiary of Edison. Based on the audit outlined above, the staff accountant's opinion is that the recorded data used in determining the ECABF is fairly presented and in accordance with the rules and regulations of the Commission with one exception. That exception is the matter of including fuel contract and procurement administration expenses as a recoverable expense for ECAC purposes. That issue was disposed of in Decision No. 90488, supra, and the staff observed that no such issue is involved in this proceeding.

The staff accountant had one further issue upon which to make a recommendation to the Commission and that is the matter of the plans for the Kaiparowits coal mine development. Kaiparowits is one of Edison's Commission-approved energy exploration and development adjustment (EEDA) projects and represents rights in an extensive low sulfur coal reserve. In Decision No. 88121, dated November 22, 1977, the Commission, indicating its concern that Edison did not have definite plans for Kaiparowits, stated:

> "The staff is concerned over the status of the Kaiparowits coal mine development. The costs associated with the Kaiparowits coal E&D project were recognized when the Edison E&D program was authorized by this Commission. In April 1976 the proposed Kaiparowits electric generating plant was removed from Edison's financial and resource planning schedules. Edison still retains, through its subsidiary Mono, rights in extensive low sulfur coal reserves at Kaiparowits. The staff correctly points out that to merely own coal reserves for which no specific use is planned is not warranted. However, the Kaiparowits coal reserves were acquired for a specific planned use. Edison's one-third share in Kaiparowits coal reserve is estimated at 200 million tons.
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> "If the Kaiparowits coal reserves are part of an unsuccessful project, Edison's costs will be amortized over a five-year period. Edison's annual report will set forth the current status of the Kaiparowits coal reserves and the intended or possible use of such reserves. However, we will not preclude Edison from including the Kaiparowits coal project in its EEDA program. We conclude on our record that definite plans for the disposition of the Kaiparowits coal reserves cannot be made at this time."

The staff recommends that Edison demonstrate to the Commission during the next ECAC hearing that it has definite plans for the future use of Kaiparowits that meet EEDA guidelines or remove the project from their EEDA program.

The staff engineer's study of Edison resulted in several recommendations, in particular, a suggested rate design. After a study of the recorded data of Edison's coal-fired plants and their efficiencies, the engineer made some recommendations, but also stated that the Commission take no action on them at this time because of the order in Decision No. 90488, supra, requiring Edison to engage a consultant to study the matter and prepare a system of incentives for consideration at the next ECAC proceeding. That would have been this proceeding, but the staff now recommends that consideration be put off until the May 1980 ECAC. Other investigations and studies by the staff engineer revealed the following: (1) comparison of the average prices paid by Edison for 0.25 percent sulfur fuel oil with similar fuel oil purchased by other major electric utilities in California as of December 1978 revealed that prices paid by Edison were reasonable; (2) the weighted average prices paid by Edison for gas for the year 1978 compared to the prices paid by other major California utilities were reasonable; (3) a comparison of the average price of coal paid by Edison in 1978 with national averages for the same product and sources revealed that Edison paid a reasonable price for coal; (4) the average expense incurred by Edison per kWh for nuclear fuel compared to the national average disclosed that the price paid by Edison was reasonable; (5) Edison's purchased power expense was reasonable and the amount purchased prudent; and (6) although Edison's hydrogeneration does not require a fuel expense, the staff noted that such power accounted for 9.3 percent of Edison's total energy requirement and helped to reduce the overall average cost per kWh from all sources.

The staff suggests that variable time-of-use (TOU) factors should be presented by Edison in one year. Both Pacific Gas and Electric Company and San Diego Gas & Electric Company have been ordered to offer in evidence variable TOU rate factors which would be applied to very large customers who had been on TOU rates for one year or more. Edison's customers with demand between 1,000 and 5,000 kW only recently have been authorized to be on the same schedule as very large customers with demands above 5,000 kW (Decision No. 90146, dated April 10, 1979). The customers using such rates need some time to adjust to TOU schedules, hence the staff recommendation.

The staff believes that in order to provide an incentive for conservation, lifeline rates should not be increased until they are considerably below average system rates.1/ Therefore, the staff recommends that none of the increase should be allocated to lifeline but that the entire amount should be allocated to all other classes on a uniform cents per kWh. As a result, lifeline would be 19.6 percent below system. Part of the staff's rationale is based on the belief that lifeline usage is ~~relatively~~ inelastic in the price elasticity economic theory of use changes occasioned by price changes, because lifeline volumes are set to provide the amount of energy necessary to just sustain the average family in average conditions, no more and no less. The staff engineer offered an exhibit which shows that the long range price elasticity for residential customers of Edison is -1.15 percent, meaning that an increase in price of 1 percent reduces the quantity demanded by 1.15 percent. Comparative figures for other classes were -0.94

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1/ In Exhibit 22 the staff stated that, "Unlike other major California utilities, Edison's average system rate now is not higher than the average Lifeline rate." This is based on adopted rates and sales levels from Edison's last general rate case. However, average rates based on actual sales and revenues during the record period show lifeline to be 4.158¢/kWh and system average to be 4.322¢/kWh.

for commercial users and -0.67 for industrial users indicating that they had less resistance to price changes than the residential users. To sum up the staff position on conservation, it believes that lifeline use is inelastic; and if there is to be a diminution in use due to rate increases, it will come from the users who exceed the lifeline allowance. Therefore, it is a valid approach to increase the nonlifeline rates and not the lifeline. This result can be seen in the staff proposal detailed in Appendix A.

Toward Utility Rate Normalization (TURN) Participation

At the second day of hearing, September 4, 1979, a representative of TURN appeared and requested and received a continuance which resulted in a third day of hearing. Through cross-examination of Edison and staff witnesses, the representative focused on three areas of concern to TURN: (1) Edison's assertion that prompt relief is needed because of cash flow problems, (2) the thoroughness of the Edison and staff audits in connection with the reasonableness of fuel costs, and (3) Edison's proposal to increase lifeline rates.

As to Item (1), cash flow, TURN brought out that there are two sources of funds which tend to relieve Edison's cash flow problems. The first is a fund exceeding $130 million as of July 1978 from a fuel adjustment ordered by the Commission in Case No. 9886 which is being returned to customers over a three-year period, and the second stems from lower than expected actual income tax obligations compared to estimates for Edison's last general rate case; that amounts to about $37 million.

Concerning Item (2), the reasonableness of fuel costs, the staff report in this proceeding is based on an examination covering the six-month period from September 1, 1978, through February 28, 1979, and is essentially an update of the last audit for the ECAC in Application No. 58393 which was for the period beginning November 1, 1978. TURN further brought out that Edison's nuclear fuel prices are higher than the national average, and that maybe unscheduled outages have required the more expensive energy source replacement occasioned by use of fuel oils. Also, TURN cross-examined Edison witnesses on the cost of operating Edison's coal plants at less than a 60 percent capacity factor during the recorded period. Finally, concerning reasonableness of fuel costs, TURN attacked the underlift charges of the Chevron supply contract which result from Edison's not taking its full contract requirement from Chevron, TURN's point being that Edison failed to attempt to sell the unused portion of its contract amount to some other user such as the Los Angeles Department of Water and Power.

In connection with Item (3), Edison's proposal to increase lifeline rates, TURN adopts the staff-recommended rate proposal should the Commission grant Edison an increase.

The Issues

There are six major issues to be resolved in this proceeding.

1. Is it appropriate for Edison to combine two ECAC adjustments in one proceeding?
2. Are the fuel costs used to justify the ECAC adjustment reasonable?
3. How should any rate increases granted Edison be spread to its various users?
4. Does Edison have a cash flow problem which justifies moving up the November 1979 ECAC adjustment to October?
5. Should Edison be ordered in this proceeding to demonstrate to the Commission during the May 1980 ECAC proceeding that they have definite plans for the future use of the Kaiparowits coal mine development or remove the project from their EEDA program?
6. Should Edison be ordered to present proposals within the next year for variable TOU factors?

In addition to the above major issues, there are two minor issues to be discussed. The first of these is whether or not the present billing method of Edison adequately explains the charging system in the tariff and, second, whether Edison should be ordered to study and file, with the cooperation of the staff, revised tariff page formats.

Two ECACs in One Proceeding

Edison has taken the unprecedented step of combining two ECAC requests (May and November) in a single proceeding, an innovation that should be considered by the Commission for the guidance of other utilities. In this case, we will accept the amended filing because the original request for May, filed March 23, 1979, had lagged to the point that no good purpose would be served by requiring a new filing for November. However, utilities are put on notice that there should be similar good reason if any energy cost adjustment applications are combined in the same manner in the future.

Reasonableness of Fuel Costs

TURN attacked the reasonableness of fuel costs from several points. First, TURN asserts that the examination of fuel procurement practices and costs were severely truncated by the staff and virtually bypassed by Edison. Although it is true that the audit made by the staff covered the six-month period from September 1, 1978, to February 28, 1979, and was essentially an update from the last audit made for the ECAC adjustment filed October 2, 1978, it was the staff accountant's opinion that the recorded data used in determining the ECABF is fairly presented in accordance of the rules and regulations of the Commission. The one exception to that, certain administrative costs, has already been taken care of by Decision No. 90488, supra. The record shows that the original application covered the 12 months ended February 1979 and the amendment covers the additional months of March through

July inclusive. These five additional months of recorded fuel and purchased power expenses were not included in the review of the staff audit for the original filing. However, because of the nature of the ECAC balancing account, the account is going to reflect both over- and undercollections of expenses during the period. If an audit produced an expense or disclosed expenses that the staff felt were not reasonable, as they have in the past, then the balancing account can be adjusted accordingly by adjusting the ECAC factors. In the opinion of Edison and the staff, the lack of an audit for those five months is not crucial and ratepayers or stockholders will not be adversely affected because that is the purpose of the balancing account. Anything which might be uncovered in an audit of the additional five months can be taken care of in the ECAC factor which is established for the period beginning May 1, 1980. Further, the undercollections in the balancing account are so large (see Appendix B) that this cannot possibly affect ratepayers adversely.

In the matter of nuclear plant downtimes, which were brought out by the cross-examination of Edison's witnesses by TURN, the record shows that these are not uncommon and did not contribute in any unusual way to increased fuel costs during the period.

The Chevron underlift charges, which come about when Edison is not able to take its full contract oil requirement from Chevron, were attacked as unreasonable by TURN on the basis that Edison failed to try to sell the unused portion of the contract amount to some other user. Because the record in this proceeding could have been more clear on this matter, we caution Edison in future ECAC proceedings to put in more complete evidence on the reasonableness of such charges and, in particular, why the unused portions cannot be sold to other users.

Through cross-examination TURN brought out that the Edison coal plants at Four Corners and Mojave were still operating at low average capacity factors. For the 12 months ended July 1979, they were, respectively, 42 percent and 47 percent. In Decision No. 90488 which we issued last July, we ordered Edison, with the cooperation of the staff, to hire a consultant to evaluate the coal plant operations and perhaps recommend standards of performance. Because of the short time span, this has not been completed and, in fact, a consultant has not yet been selected. Edison witnesses, through a series of questions, estimated that if the plants were to operate at an assumed reasonable capacity factor of 60 percent, the combination of reduced oil expense plus increased expense for coal would amount to about a $35 million reduction in energy costs for Edison. Because we are dealing with energy cost adjustments in this proceeding, along with balancing accounts which can be further adjusted in the May 1980 ECAC, we will reduce Edison's request by the $35 million. This will amount to nothing more than a deferral if the consultant's report should come up with results which would prompt a reversal of this finding.

Rate Spread

One of the most vexatious problems the Commission has had lately is spreading rate increases to the various customer classes. Part of this problem is due to Section 739(c) which has operated to deny any increases on the domestic lifeline allowances for residential users. In this proceeding the staff and Edison, at the prompting of the ALJ, presented comprehensive evidence on the current average cents per kWh charges for the various customer classes. Together with new estimates of kilowatt-hour sales during the period to be covered by the ECAC adjustment ordered in this proceeding,[2/] a reasonable current estimate of the effects on the various customer classes can be made. As can be noted in Appendix A, the total system average cents per kWh now exceeds the domestic lifeline average by about 4 percent. However, Edison's average system rate still has not exceeded the January 1, 1976, average by 25 percent which would automatically trigger the possibility of Commission-approved increases in the lifeline rates. Using the present system average of 4.322 cents per kilowatt hour, approximately $50 million in system increases is needed to raise the system average cents per kilowatt hour to 25 percent above the January 1, 1976, level.

In general, there are three proposals before us for spreading the requested increase. (We will grant approximately $432 million which is the requested $467 million minus the $35 million adjustment previously cited.) Edison proposes to spread the original $133 million request to all classes except lifeline on a uniform cents per kWh basis and then, since Section 739(c) would be satisfied, spread the remainder of any increase to all classes, including lifeline, on a uniform cents per kWh; the staff recommends that the entire increase be spread to all classes except lifeline on a uniform cents per kWh basis; and CMA requests that the entire increase be spread to all classes, including lifeline, on a uniform cents per kWh basis. The results of these proposals are shown on the following table.

2/ Because of Edison's request that the ECABF adjustments start October 1, the sales projection is for the 12 months beginning October 1, 1979. Although this decision will order an ECAC increase effective November 1, 1979, we will assume that the estimates apply for that year.

TABLE D

Comparison of Alternative Rate Designs
(Includes All Applicable Charges)

		Edison		Staff		CMA		Adopted	
	Present ¢/Kwh	¢/kWh	Increase	¢/kWh	% Increase	¢/kWh	Increase	¢/kWh	% Increase
Lifeline	4,158	4,767	14.6	4,158	-	5,011	20,5	4,220	1,5
Nonlifeline	5,255	6,159	17,2	6,287	19,6	6,108	16,2	6,329	20.4
Total Domestic	4,622	5,356	15,9	5,059	9.4	5,475	18,5	5,112	10,6
Agriculture	4,579	5,483	19,7	5,611	22,5	5,432	18,6	5,497	20,0
Commercial	4,508	5,412	20,1	5,540	22,9	5,361	18,9	5,426	20.4
Industrial	3,812	4,716	23,7	4,844	27,1	4,665	22,4	4,730	24,1
OPA	4,510	5,414	20,0	5,542	22,9	5,363	18,9	5,428	20,4
Total System	4,322	5,175	19,7	5,174	19,7	5,175	19,7	5,112	18,3
Nonlifeline Over Lifeline	26,4	29,2		51,2		21,9		50,0	
Lifeline Below System	3,8	7,9		19,6		3,2		17,5	

As can be seen on Table D, the three proposals have decidedly different effects on the domestic classes with correspondingly complementary effects on other than domestic. The proposals of Edison and CMA are similar with the difference being that Edison takes the first step of assigning $133 million to all but lifeline classes. This results in a lower total increase to lifeline, 14.6 percent versus the increase from the CMA method of 20.5 percent. However, we are confronted with two things, the action of Section 739(c) and the fact that some attempt should be made to increase the conservation efforts in the domestic class. This record is clear that the domestic class has not only increased consumption at a greater pace than other classes but has also increased its consumption per user, something we consider to be a far more serious development. The staff proposes to fight this trend by establishing a substantial difference between the nonlifeline and lifeline domestic rates. In this case, a difference of 51.2 percent, i.e., nonlifeline cents per kWh average rates would exceed lifeline by 51.2 percent.

In our Phase II lifeline decision[3/], we indicated the following interpretation of Section 739(b). The section prohibits increases above the January 1, 1976 level until the average system rate is 25 percent "or more" over that level. The phrase "or more" is indicative of a legislative intent to provide the Commission with some discretion, <u>after</u> the 25% percent differential has been reached, to do what the Commission deems appropriate for ratemaking purposes.

Both Edison and CMA have, in effect, recommended that the phrase "or more" be ignored and that, having reached a level 25 percent above the January 1, 1976 level, the increases be established on a uniform ¢/kWh basis.

Of the three major rate design proposals advanced in this proceeding, only the staff's results in an average rate for the total domestic class (lifeline plus nonlifeline) which is less than

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3/ Decision No. 88651, dated April 4, 1978.

the average system rate. Until this major ECAC rate increase, the rate increases of Edison have not been so great as to increase nonlifeline rates to a level where the average system rate has exceeded the total domestic rate. In our recent Pacific Gas & Electric Company (PG&E) ECAC decision, we acknowledged that the total residential rate for both PG&E and San Diego Gas & Electric Company (SDG&E) was now less than the average system rate.

For purposes of this proceeding and pending a more complete review of the rate relationships between and within classes of service in a general rate proceeding, we will establish domestic rates which will result in an average domestic rate equal to the average system rate. Within the domestic class we will adopt the staff's recommendation for a substantial increase in the nonlifeline rate and, for the present, utilize a nonlifeline rate 50 percent above average lifeline. Appendix "C" includes the development of the adopted ECAC rates and Table D summarizes the effect by classes of service.

In the recent PG&E ECAC decision, we also indicated that the Commission intends to take a broader look at the proper relationship between lifeline and other rates in the context of future general rate decisions for PG&E and other utilities. Until we have an opportunity to do so in the anticipated Edison general rate proceeding, we plan in subsequent Edison ECAC proceedings to follow the approach adopted in our recent PG&E Decision No. 90369 of October 10, 1979. Since the new total rate for the domestic class will be the same as the average system rate, we will adopt the policy that the burden of future ECAC rate increases be borne by all classes of customers on a uniform ¢/kWh basis. Within the domestic class, the burden should be principally on nonlifeline rates.

In increasing lifeline rates, we are faced with the question of whether or not Section (739(c) has been satisfied by incorporating in one proceeding a two-step increase. We could have accomplished the same thing by issuing an order increasing Edison's rates by $50 million today and then, tomorrow, by an additional $382 million. We believe this would be an idle act.

In order to implement the above rate spread, it will be necessary to revert to the three-level ECABF method in effect for Edison prior to Decision No. 90488, <u>supra</u>. The three levels established would be for domestic lifeline, domestic nonlifeline and other than domestic service. Appendix C contains the detail of the ECABF calculations for the three levels and shows the final increase we will authorize. Appendix D is a comparison of domestic schedule bills for various kWh usages under the Edison, staff and adopted rate designs. The average domestic usage is about 500 kWh and the average domestic rate will increase by 10.6 percent compared to the system average of 18.3 percent.

<u>Cash Flow</u>

Edison's argument of an impairment of cash flow was for the purpose of its plea that the increase requested be made effective October 1 instead of the usual November 1. Since it will be made effective November 1, there is no issue to be resolved.

<u>Kaiparowits and TOU Recommendations</u>

The basic purpose of ECAC procedures is to provide reasonable, just and expeditious tracking of a major element of a utility's energy costs without waiting for a general rate case. If substantive issues are introduced in ECAC cases, the cases cannot be expeditiously handled because fairness to the parties (through the need for an adequate record) makes it impossible. Therefore, we reject the staff recommendations on Kaiparowits and TOU factors in this proceed- and suggest that they be introduced in Edison's next general rate case, the NOI for which has been filed.

Tariff Simplification

A review of Edison's tariffs indicates that they are confusing in application, in particular for the domestic classes. For instance, there exists a break between the maximum present lifeline allowance of 240 kWh and 300 kWh which serves no purpose and there are additional lifeline allowances for such things as life support facilities which contain confusing charge schedules. We urge Edison to confer with the staff and at an appropriate time file amended tariffs by advice letter.

Domestic Billings

We are authorizing by this decision an increase in lifeline rates for the first time in several years and we are introducing what we hope will be a domestic rate design that will foster conservation. Because of this it is important that users -come aware of the options open for keeping their energy bills -- as possible and, at the same time, understand the penalty - pay for unreasonable usage. Under cross-examination by -tative of TURN, the staff rate design witness agreed -b could be done in explaining the rates for usage. -our staff to cooperatively develop a billing -tional material for customer distribution objectives discussed above.

-son requests an increase in its ECABFs - and 0.904¢/kWh for other than revenue increase to Edison

-s proceeding, Edison's combining -pplication is acceptable.

CORRECTION

CORRECTION

THIS DOCUMENT

HAS BEEN REPHOTOGRAPHED

TO ASSURE LEGIBILITY

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Domestic Billings

We are authorizing by this decision an increase in lifeline rates for the first time in several years and we are introducing what we hope will be a domestic rate design that will foster conservation. Because of this it is important that users become aware of the options open for keeping their energy bills as low as possible and, at the same time, understand the penalty they will pay for unreasonable usage. Under cross-examination by the representative of TURN, the staff rate design witness agreed that a better job could be done in explaining the rates for usage. We urge Edison and our staff to cooperatively develop a billing format and other educational material for customer distribution which will accomplish the objectives discussed above.

Findings of Fact

1. By this application Edison requests an increase in its ECABFs of 0.609¢/kWh for lifeline quantities and 0.904¢/kWh for other than lifeline quantities. The approximate revenue increase to Edison would be $466.6 million.

2. For the purposes of this proceeding, Edison's combining of two ECAC adjustments in one application is acceptable.

3. Duly noticed hearings in this application were held at which all interested parties had an opportunity to be heard.

4. Edison's coal plants continue to operate at capacity factors of 42 to 47 percent, compared to the expected capacity factor of about 60 percent.

5. Edison, at the direction of the Commission, is undertaking a study of the coal plants to determine what has caused the low capacity factors.

6. Pending completion of the consultant's study on the coal plants, ratepayers can be protected if the higher presumed reasonable factor is imputed.

7. Edison's request should be reduced by about $35 million as a result of lower than reasonable operating capacity factors at its coal plants.

8. The Commission may change the adjustment noted in Finding No. 7 in a future ECAC proceeding if the results of studies to be made on the proper or reasonable operating factors so indicate.

9. Other than for the adjustment noted in Finding No. 7, Edison's fuel costs used to determine the increases to be authorized by this decision are reasonable.

10. The use of available current sales estimates, rather than historical or recent general rate case estimates, will produce more accurate estimates of revenues and rates per kilowatt hour for the current ECAC period.

11. Energy consumption for the residential class of user has increased as a whole as well as per user.

12. Increasing the lifeline quantity rate by 1.5 percent and the nonlifeline quantity rate by 20.4 percent will provide residential customers a signal, through their rates, of the need to conserve.

13. Edison should be authorized to increase its ECABFs by 0.062¢/kWh for lifeline sales, 1.074¢/kWh for nonlifeline domestic sales, and 0.918¢/kWh for all other sales.

14. As a result of the ECABF increases outlined in Finding No. 13, the estimated additional annual revenue for Edison will be $431,591,000.

15. The increases in Finding No. 13 are reasonable and can foster conservation of energy.

16. In its next ECAC proceeding, Edison should put in more complete evidence on the reasonableness of the underlift charges under the Chevron contract for fuel oil.

17. 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.

18. Because there is an immediate need for the rate relief authorized herein, the following order should be made effective the date hereof.

Conclusions of Law

1. Edison should be authorized to file and to place into effect the ECABFs 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.

IT IS ORDERED that:

Southern California Edison Company shall file with this Commission within five days after the effective date of this order, in conformity with the provisions of General Order No. 96-A, revised tariff schedules with rates, charges, and conditions modified as follows:

> The Energy Cost Adjustment Clause rates are increased by o.062¢/kWh for all lifeline sales, by 1.074¢/kWh for all nonlifeline domestic sales, and by 0.918¢/kWh for all other sales.

The revised tariff schedule shall be effective November 1, 1979.

The effective date of this order is the date hereof.

Dated OCT 23 1979, at San Francisco, California.

John E. Bryson
President

Vernon L. Sturgeon

Richard D. Gravelle

Claire T. Dedrick

Leonard M. Grimes, Jr.

Commissioners

APPENDIX A

	M^2 kWh* Sales (1)	(Revenue Thousands) Present (2)	Increase (3)	Proposed (4)	Cents Per kWh Present (5)	Increase (6)	Proposed (7)	Percent Increase (8)	Cents Per kWh as a Percent of System Present (9)	Proposed (10)
EDISON REQUEST										
Domestic Lifeline	9,548	$ 397,006	$ 58,147	$ 455,153	4.158	.609	4.767	14.6	96.2	92.1
Nonlifeline	6,999	367,798	63,271	431,069	5.255	.904	6.159	17.2	121.6	119.0
Total Domestic	16,547	$ 764,804	$121,418	$ 886,222	4.622	.734	5.356	15.9	106.9	103.5
Agricultural	1,107	50,689	10,007	60,696	4.579	.904	5.483	19.7	105.9	106.0
Commercial	14,837	668,852	134,126	802,978	4.508	.904	5.412	20.1	104.3	104.6
Industrial	17,456	665,422	157,802	823,224	3.812	.904	4.716	23.7	88.2	91.1
OPA	4,781	215,623	43,220	258,843	4.510	.904	5.414	20.0	104.3	104.6
Total System	54,728	$2,365,390	$466,573	$2,831,963	4.322	.853	5.175	19.7	100.0	100.0
STAFF RECOMMENDATION										
Domestic Lifeline	9,548	$ 397,006	$ -	$ 397,006	4.158	-	4.158	-	96.2	80.4
Nonlifeline	6,999	367,798	72,230	440,028	5.255	1.032	6.287	19.6	121.6	121.5
Total Domestic	16,547	$ 764,804	$ 72,230	$ 837,034	4.622	.437	5.059	9.4	106.9	97.8
Agricultural	1,107	50,689	11,424	62,113	4.579	1.032	5.611	22.5	105.9	108.4
Commercial	14,837	668,852	153,118	821,970	4.508	1.032	5.540	22.9	104.3	107.1
Industrial	17,456	665,422	180,146	845,568	3.812	1.032	4.844	27.1	88.2	93.6
OPA	4,781	215,623	49,340	264,963	4.510	1.032	5.542	22.9	104.3	107.1
Total System	54,728	$2,365,390	$466,258	$2,831,648	4.322	.852	5.174	19.7	100.0	100.0

* Estimated year beginning October 1, 1979.

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APPENDIX B

SOUTHERN CALIFORNIA EDISON COMPANY

FORECAST OPERATION OF THE ENERGY COST ADJUSTMENT CLAUSE

1979-80

Month	Lifeline ECABF ¢/kWh	Nonlifeline ECABF ¢/kWh	Fuel & Purch. Pwr. Revenue $M	Fuel & Purch. Pwr. Expense $M	Expense-Revenue $M	Interest $M	ECAA Balance $M
BALANCE FORWARD							181,151
Aug., 1979	1.596	2.379	103,775	128,861	25,086	1,130	207,367
Sept.	1.596	2.379	107,045	125,103	18,058	1,262	226,687
Oct.	2.205	3.283	113,816	120,838	7,022	1,343	235,052
Nov.	2.205	3.283	139,119	141,944	2,825	1,379	239,256
Dec.	2.205	3.283	134,174	150,995	16,821	1,445	257,522
Jan., 1980	2.205	3.283	142,185	143,675	1,490	1,507	260,519
Feb.	2.205	3.283	135,071	133,419	(1,652)	1,515	260,382
Mar.	2.205	3.283	137,359	144,434	7,075	1,540	268,997
Apr.	2.205	3.283	130,065	127,303	(2,762)	1,561	267,796
May	2.697	3.775	140,801	114,545	(26,256)	1,486	243,026

NOTE: Projection is based upon recorded data through July 1979. The balance of the projection is current outlook.

APPENDIX C

1. The average system rate at adopted revenue levels would be:

   From Table D 5.112 ¢/kWh

2. The total domestic increase to bring the average domestic rate to the average system rate would be:

   5.112 ¢/kWh
   4.622 ¢/kWh
   .490 ¢/kWh x 16,547 = 81,080,000

3. Calculate domestic lifeline and nonlifeline rates with nonlifeline at 150% of lifeline using adopted revenue:

Present Domestic Revenue	764,804,000
Increase (Step 2)	81,080,000
Adopted Revenue	845,884,000

L = Lifeline Rate N = Nonlifeline Rate = 1.5L

9548L + 6999 (1.5L) = $845,884,000

L = 4.220 N = 1.5L = 6.329

4. ECABF increases for domestic lifeline and domestic nonlifeline are differences between present average ¢/kWh and rates from Step 8:

   Lifeline : 4.220 - 4.158 = .062

   Nonlifeline: 6.329 - 5.225 = 1.074

5. All other classes are increased by:

   466,673,000 - 35,000,000 - 81,080,000 = 350,593,000

   350,593,000 ÷ 38,181 = .918 ¢/kWh

6. The total estimated increase:

L/L Domestic	.062 x 9548 =	5,920,000
Non L/L Domestic	1.074 x 6999 =	75,169,000
All Other Classes	.918 x 38,181 =	350,502,000
	Total Increase	431,591,000

(Minor differences in Appendix due to rounding)

APPENDIX D

Comparison of Monthly Domestic Bills
(240 kWh Lifeline Allowance)

kWh/Mo.	Present	Edison Request Amount	Edison Request % Increase	Staff Proposal Amount	Staff Proposal Increase	Adopted Amount	Adopted Increase
0	$ 2.00	$ 2.00	-	$ 2.00	-	$ 2.00	-
240	11.39	12.85	12.8	11.39	-	11.54	1.32
300	14.21	16.22	14.1	14.83	4.4	15.00	5.56
400	18.90	21.82	15.4	20.56	8.8	20.77	9.89
500	23.60	27.42	16.2	26.29	11.4	26.54	12.46
600	28.21	33.01	17.0	32.01	13.5	32.32	14.57
700	32.99	38.61	17.0	37.74	14.4	38.09	15.46
800	37.68	44.21	17.3	43.47	15.4	43.86	16.40
1200	56.47	66.62	18.0	66.39	17.6	66.95	18.56
1600	75.26	89.02	18.3	89.30	18.7	90.04	19.64
2000	94.05	111.44	18.5	112.23	19.3	113.12	20.28