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Decision No. 91276 JAN 29 1980

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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 (Petition filed December 21, 1979)

(See Decision No. 90967 for appearances.)

Appearances at Hearing of Petition for Modification

John R. Bury, William E. Marx, Richard K. Durant, and Carol B. Henningson, by William E. Marx and Carol B. Henningson, Attorneys at Law, for Southern California Edison Company, applicant.
Robert E. Burt, for California Manufacturers Association, interested party.
James Cherry, Attorney at Law, for the Commission staff.

OPINION AND ORDER

In D.90967, dated October 23, 1979, the Commission approved increased gross revenues of $431.6 million for Southern California Edison Company (Edison) beginning November 1, 1979. Several parties filed petitions for rehearing which are presently pending before the Commission.

The aforesaid increases were primarily authorized as the result of fuel oil increases to Edison and in accordance with Energy Cost Adjustment Clause (ECAC) billing factors. Of the total increase found reasonable, $146 million reflected the adjusted balance of undercollections in Edison's energy cost adjustment account (ECAA) which was to be amortized through increased rates for the 12-month period commencing November 1, 1979.

On December 21, 1979 Edison filed a petition for modification of D.90967 to increase the ECAC billing factors applicable to its retail sales effective February 1, 1980, to fully amortize the July 31, 1979 accumulated adjusted undercollections in the period ending April 30, 1980. In short, assuming uniform monthly amortization, Edison asks to recoup approximately $81 million which will remain uncollected on May 1, 1980 in the preceding three months rather than in the following six months as would be the case if D.90967 remains unmodified.

Notice of reopened hearing to consider modification of D.90967 was duly mailed and published, and said hearing was held in Los Angeles on January 17, 1980 before Administrative Law Judge Orville I. Wright.

Evidence was presented only by Edison through the testimony and exhibits of Michael L. Noel, Treasurer, and of Richard L. Jensen.

Mr. Noel testified that Edison is faced with an "impossible" cash flow situation in 1980 which could be partially alleviated by the relief sought, which relief would reduce short-term projected negative cash flow by $81 million. According to this witness, implementation of the ECAC procedure, which is based largely upon recorded historical figures and contemplates adjustment of the billing factor semiannually, including amortization of the balancing account balance on a 12-month basis, has not kept pace with the substantial increase in oil costs. As a result, the procedure has accumulated substantial undercollections, the largest of which have occurred in the last year but are projected to be even greater without prompt additional rate relief. At year-end 1978 the undercollection balance was $102 million, and at year-end 1979 it is expected to be about

$300 million. By year-end 1980, without the relief requested herein, it is estimated that the undercollection balance will be about $425 - $600 million, depending on the timeliness of billing factor revisions. Moreover, the undercollection balance through May 1980, without the requested relief, is estimated to be in the $500 to $600 million range.

Mr. Noel foresees that the circumstances described, together with Edison's other substantial cash requirements for 1980 will, without the relief sought herein, jeopardize its security ratings. He testified as follows (Exhibit 29, p.4):

> "Based upon discussions with rating agencies, aside from the serious question as to the Company's ability to raise the capital required in 1980, if something is not done in a timely manner to improve Edison's cash flow, Edison will be faced with the strong likelihood of the downgrading of its bonds, preferred stock, and commercial paper. Downgrading of Edison is likely to trigger downgradings of other utilities in California, and California could lose the gains in investor confidence and improved attitude in the financial community toward California utility regulation. If this improved trend is reversed, it will take a long time for it to be regained. In addition to the probable adverse effect on ratings, deteriorating investor attitudes could have a significant impact on Edison's common stock price. With the projected issuance of more than 9 million shares of common stock in 1980, any further gap between market price and book value will result in even higher costs of capital and ultimately higher rates to our customers."

Mr. Jensen sponsored Exhibit 31, which illustrates the proposed modification to the current Energy Cost Adjustment Billing Factors (ECABF), calculated according to the rate design methodology adopted by the Commission in D.90967, to fully amortize the ECAC balancing account balance of approximately $181 million as of July 31, 1979, (reduced by the $35 million which the Commission deferred consideration of until the May 1, 1980 revision date filing), over the period ending April 30, 1980, by increasing the ECABF effective February 1, 1980. The average increase is 0.618¢/kWh and becomes the increase for other than domestic usage. Domestic rates are then increased, as in Appendix C of D.90967, so that the total average nonlifeline domestic rate per kWh is 150 percent of the total average lifeline domestic rate per kWh. This produces a 0.510¢/kWh increase for lifeline and a 0.766¢/kWh increase for nonlifeline domestic. The result is to increase the ECABF from 1.658¢/kWh to 2.168¢/kWh applicable to lifeline domestic service, from 3.453¢/kWh to 4.219¢/kWh applicable to nonlifeline domestic service, and from 3.297¢/kWh to 3.915¢/kWh for other than domestic service.

It is uncontroverted that Edison's proposed accelerated amortization rates are in harmony with the rate spread principles enunciated in D.90967. The only issue before us is whether to approve the Edison plan to partially alleviate its admittedly difficult cash flow problem, and we resolve this issue in Edison's favor as discussed below.

Order Instituting Investigation (OII) No. 56 was filed on August 14, 1979 for the purpose of reviewing ECAC tariff provisions in order to determine what, if any, changes should be made in them. The OII requests that parties desiring to have the Commission consider issues which have generic application defer raising such issues until OII No. 56 commences. The issue of reducing the ECAC amortization period to six months is raised in that OII, and hearings are under way. However, resolution of that matter cannot reasonably be anticipated to occur in time to be applicable to Edison's dire first and second quarter 1980 cash flow dilemma. We believe that prompt relief in this case is in the public interest irrespective of the outcome of OII No. 56.

Further, Edison directs our attention to precedent which we find persuasive. In Edison's Application No. 57199, D.87429, issued June 7, 1977 we stated at page 5:

> "The Commission is aware that the current extreme drought condition is placing an unusual cash flow burden on the company; therefore, the Commission will entertain a filing for an ECAC revision prior to Edison's next regular semi-annual revision date of November 1, if the company still believes that conditions have not improved and that a quarterly adjustment is necessary."

In Southern California Gas Company's Application No. 58724, D.90822, issued February 12, 1979, we approved a shortened amortization period in circumstances analogous to those before us, stating at pages 14 and 55:

> "The staff proposes that the PGA and SAM over- or undercollections be amortized over the forecast period, i.e., a 12-month amortization period, and So Cal proposes that such over- or undercollections be amortized over the six-month period between filings. So Cal's method has the advantage of precluding dramatic build-ups of under- or overcollections that could occur during long periods of consistent under- or overcollections utilizing the staff's method and will, therefore, be adopted."

* * *

> "If the amortization of PGA and SAM under- or overcollections in the balancing account is made over a six-month period, as compared to the twelve-month period now employed, there will be less build up of large under- or overcollections."

* * *

> "Large under- or overcollections in the balancing accounts do not benefit SoCal or its ratepayers because a large undercollection impacts the utility's cash flow and an overcollection should quickly be passed on to benefit ratepayers."

The Revenue Requirements Division provided a statement in support of Edison's petition which was read into the record by staff counsel. The matter was submitted on oral argument, California Manufacturers Association supporting the Edison position and staff counsel speaking personally against it on equitable grounds, i.e., moneys owing by Edison to its customers should be amortized in a like period of time as are the oil cost increases to Edison which are the subject of this proceeding.

Findings of Fact

1. Edison should be authorized to increase its ECABFs for the period February 1, 1980 through April 30, 1980 as follows:

Lifeline	0.510¢/kWh
Nonlifeline domestic	0.766¢/kWh
Other than domestic	0.618¢/kWh

These increases will fully amortize the balance of undercollections in Edison's ECAC as of July 31, 1979 of $146 million, exclusive of adjustment.

2. Edison's ECAC amortization for the balance of undercollections in its ECAC balancing account should be shortened from nine to three months commencing February 1, 1980.

3. Shortening of Edison's ECAC amortization schedule to six months will yield approximately $81 million of the adjusted balance of $146,151,000 remaining as of July 31, 1979.

4. Edison's cash flow deficiency for 1980 is unusually substantial and, unless alleviated at least in part will result in jeopardy to its credit ratings as well as additional short-term borrowings at inflated costs, all to the detriment of Edison and its ratepayers.

5. Shortening of the amortization period as prayed for will not increase Edison's rate of return and will allow Edison to recover approximately $81 million at an earlier time to assist it in meeting its cash flow obligations.

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

7. 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 period described herein, unjust and unreasonable.

8. 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 has already incurred the costs which will be offset by the rate increase authorized.

IT IS ORDERED that Southern California Edison Company may 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 0.510¢/kWh for all lifeline sales, by 0.766¢/kWh for all nonlifeline domestic sales, and by 0.618¢/kWh for all other sales.

The revised tariff schedule shall be effective not earlier than five days after filing with the Commission.

The effective date of this order is the date hereof.

Dated JAN 29 1980, at San Francisco, California.

John E. Bryson
President

Vernon L. Sturgeon

Richard D. Gravelle

Claire T. Dedrick

Leonard M. Grimes, Jr.
Commissioners