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Decision No. 91416 MAR 4 1980**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 Adjust-)
ment Billing Factors.)

Application No. 58764
(Filed March 23, 1979;
amended August 17, 1979)

ORDER MODIFYING DECISION NO. 90967
AND DENYING REHEARING

Petitions for rehearing of Decision No. 90967, which was issued in this proceeding on October 23, 1979, have been filed by the Southern California Edison Company (Edison), Toward Utility Rate Normalization (TURN), the California Manufacturers Association (CMA), and the General Motors Corporation (GM). We have considered each and every allegation of error in these petitions and are of the opinion that good cause for rehearing has not been shown, but that Decision No. 90967 should be modified to provide findings of fact on all material issues, specifically in the area of rate design. We will also correct or modify certain findings and one textual error, and add further discussion of the rationale for our chosen rate design. Therefore,

IT IS HEREBY ORDERED that Decision No. 90967 shall be modified as follows:

1. The following discussion shall be added under the appropriate subheading:

Rate Spread

The rate designs proposed by Edison and CMA would spread the increased energy costs authorized to be recovered in this proceeding equally among all customer classes, with a partial exception, in the case of Edison's design, for the lifeline rate.

Residential lifeline rates would be increased 14.6 percent under Edison's proposal and 20.5 percent under CMA's proposal. We do not believe this magnitude of increase in lifeline rates is justified by the evidence in this proceeding, nor is it compatible with the legislative policy of Public Utilities Code Section 739 or the Commission's policy of limiting increases in the lifeline rates, thus assuring the continued availability to residential customers of electric service sufficient to meet their minimum essential needs at an affordable price.

We consider the hypothetical cost of lifeline service and estimates of losses based on allocated cost to residential customers to be of little probative value in designing Energy Cost Adjustment Clause (ECAC) rates. The legislative policy cited above which mandates the establishment of lifeline rates for essential levels of service makes clear that embedded cost-of-service considerations should not control the determination of lifeline rates. However, several factors have persuaded us that some sharing of the burden of increased rates by lifeline customers is clearly warranted. This proceeding demonstrates that Edison has experienced substantial increases in system rates since January 1, 1976, extending, with this decision, well above 25 percent. Moreover, it has been estimated that approximately 55 percent of residential sales occur at the lifeline rate. The record certainly does not deny the existence of any potential for conservation within the lifeline block, nor do we consider it reasonable, in view of current economic conditions, to freeze lifeline rates permanently. We have therefore provided for a modest increase to the lifeline rate, which we believe is fully consistent with our continuing duty to keep this rate relatively low.

In addition, we have greatly increased the differential between lifeline and other residential rates for the purpose of promoting energy conservation within the residential class. Because lifeline quantities of electric service represent basic or minimal amounts of service, the usage in that block is most likely to be less price elastic than usage in the nonlifeline block. Thus, we can expect less conservation to be achieved in lifeline blocks than in other residential rate blocks. It is a logical conclusion that increasing the rates in the more elastic nonlifeline blocks to a greater extent than in the less elastic lifeline blocks will stimulate conservation. Significantly higher rates for nonlifeline service should provide a strong signal to residential consumers that by keeping their usage as close as possible to lifeline quantities, they can limit increases in their electric bills.

The adopted nonlifeline residential rate is 50 percent higher than the new lifeline rate (as compared with 26.4 percent prior to this proceeding). Rates for nonlifeline residential customers have been increased by 1.074¢ per kilowatt-hour, an increase of 20.4 percent. Nonresidential rates have been increased somewhat less, by 0.918¢ per kilowatt-hour, which constitutes an increase of between 20.0 and 24.1 percent over previous rates. Industrial customers such as GM and many of CMA's members will still be charged the lowest rates on Edison's system, with the exception of residential customers who limit their usage to levels at or near the lifeline allowance.

We believe these rates establish a reasonable relationship between the lifeline rate level and the rate levels for Edison's other classes of electric service. We reiterate our position on this matter, as previously expressed in Pacific Gas and Electric Company's (PG&E) recent ECAC Decision No. 90869, dated October 10, 1979:

"...In determining what relationship is reasonable the Commission seeks to achieve consistency among the major electric utilities under its jurisdiction, while yet recognizing unique factors calling for special consideration." (Decision No. 90869, mimeo., p. 12.)

In Decision No. 90869 we set PG&E's lifeline rate at a differential of 16.47 percent below the average system rate.^{1/} San Diego Gas and Electric Company's (SDG&E) lifeline rate has recently been set 17 percent below the average system rate (Decision No. 91106, issued December 19, 1979); prior to that decision the differential was 16.68 percent. In this case, the differential between Edison's lifeline and average system rates is set at 17.50 percent.

The unique factor in the instant case is that, based on the rates adopted in its last general rate case, Edison's rate increases since January 1, 1976 had not brought the average system rate above the lifeline rate or the total average residential rate, as had happened with both PG&E and SDG&E. Adopting the staff's proposed rate design, which left the lifeline rate as it was and spread the increase equally to all other customer classes, would for the first time have resulted in an average system rate higher than the average residential rate. Because of the demonstrated increase in residential usage and because the residential class constitutes a large percentage of Edison's total system, we do not consider it equitable to so reduce the relative contribution of the residential class. However, we are committed to establishing a rate design which limits increases in lifeline rates while at the same time provides a mechanism for conservation.

^{1/} We have recently increased this differential to 17.26 percent in Decision No. 91335, issued February 13, 1980.

Only our adopted rate design accomplishes all three of these goals. As already stated, the staff's proposal does not allow the system average to remain below the residential average. Neither Edison's nor CMA's proposals would enable us to keep lifeline rates low while at the same time providing a substantial conservation signal to other residential customers. Our decision to set the average residential rate equal to the system average rate enables us to achieve our three above-stated goals while at the same time keeping rates for nonresidential customers at reasonable levels.

We recognize that no empirical studies have been undertaken with respect to the price elasticity of demand for lifeline and nonlifeline residential quantities of electricity within Edison's system. For the reasons stated above, we are convinced that our conclusions as to the conservation effects of the residential rate design adopted herein are logically sound. We reiterate also that conservation was only one factor which contributed to that rate design. However, we believe that despite this, such empirical data can be of benefit in developing and refining rate design in the future. Therefore, we shall direct Edison to undertake a study using accepted statistical methods to determine the effect of our adopted rate design on residential customer usage. Edison should select a random sample of its residential customers and estimate lifeline and nonlifeline elasticities in order to determine the effects of the rates authorized herein. Details should be worked out between Edison and members of our staff; the results should be filed with subsequent ECAC applications, updated to reflect the impact of periodic rate modifications. Our order following this discussion will direct the routine development and presentation of this and other customer usage data in subsequent proceedings and illustrates our continuing determination to make maximum use of rate design to promote conservation. As we stated in Decision No. 91106, wherein we ordered SDG&E to begin a similar study:

"It is, for example, conceivable that we might find it necessary to establish an ECAC billing factor and/or a base domestic tail block rate at some usage point that provides a still higher unit price to the domestic user who consumes at levels far in excess of essential household needs; such customers may be abusive users who should pay accordingly as their high use likely contributes to peak-period generation demands. We recognize that SDG&E may incur some additional expense to develop the data ordered, but we believe that with the use of computer technology and accepted sampling techniques, the burden is not unreasonable. Given escalation of energy rates and the need to encourage conservation, development of this similar data on a routine basis is essential for enlightened utility management and the presentation of constructive rate design proposals."
(Decision No. 91106, mimeo., pp. 17-18.)

2. The following corrections shall be made:

(a) The first two lines on page 13 shall read as follows:

"for commercial users and -0.67 for industrial users indicating that they had more resistance to price changes than the residential"

(b) Finding 7 shall read in full as follows:

"Consideration of a portion of Edison's request in the amount of about \$35 million should be deferred as a result of the low operating capacity factors at its coal plants, pending a determination of the reasonableness of those capacity factors."

(c) Finding 8 shall read in full as follows:

"The Commission may allow recovery of all or part of the revenues referred to in Finding 7 in a future ECAC proceeding if the results of studies to be made on the proper or reasonable operating factors of the coal plants so indicate."

(d) Finding 9 shall read in full as follows:

"Other than the approximately \$35 million associated with Edison's coal plants referred to in Findings 7 and 8, which may be reconsidered in a future proceeding, Edison's fuel costs used to determine the increases to be authorized by this decision are reasonable."

3. The following findings of fact shall be added:

19. Edison's total average residential rate, including lifeline and nonlifeline portions, significantly exceeds its total average system rate.

20. For the purposes of this proceeding, it is reasonable to set the total average residential rate equal to Edison's total average system rate, and to set the total residential nonlifeline rate 50 percent higher than the total residential lifeline rate.

21. It is consistent with Commission policy in other recent ECAC proceedings, and is reasonable in this case, to establish for Edison a differential of 17.5 percent between the total average system rate and the total lifeline rate.

22. Edison's and CMA's proposed increases in the lifeline rate do not comport with legislative mandate and Commission policy to keep that rate relatively low, and are not reasonable.

23. The rate design adopted herein maintains the total average residential rate at a level equal to the total average system rate, recognizes the relative inelasticity of lifeline usage and sales, and establishes a difference between lifeline and nonlifeline rates that is intended to promote conservation, while ensuring that the lifeline rate remains relatively stable.

24. It has not been demonstrated by any party that any of the alternative rate designs presented in this proceeding would better accomplish the Commission's goals, as summarized in Finding 23.

25. There are no ongoing studies designed to analyze the impact of the rate design adopted herein on domestic customer use. Such a study may determine the price elasticity both for customers who usually exceed the lifeline quantity and those who are usually within it.

26. Information compiled on the effect of electric rates on consumption could be most helpful in future proceedings to assess and project cause and effect as conservation-oriented rate structures are developed.

4. The following ordering paragraph shall be added:

Edison shall: (a) Expeditiously undertake to apply accepted statistical methodology and study the consumption patterns of its domestic electric customers before and after this and subsequent rate increases. A random sample of customers who usually exceed the lifeline quantity and one of those who usually stay within that quantity should be studied to determine the price elasticity for both categories of customer. Details of this study shall be coordinated by Edison with the Commission's Electric and Energy Conservation Branches. The results shall be presented in subsequent ECAC and general rate increase proceedings. (b) Prepare for presentation in subsequent ECAC and general rate proceedings information that illustrates consumption per average customer by customer class on a seasonally adjusted basis. (c) Prepare for presentation in subsequent ECAC and general rate increase proceedings information on what percent of domestic customers' usage falls within the kWh usage categories as set forth in Appendix D of Decision No. 90967.

IT IS FURTHER ORDERED that rehearing of Decision No. 90967 as modified herein is hereby denied.

The effective date of this order is the date hereof.

Dated MAR 4 1980, at San Francisco, California.

Commissioner Claire T. Dedrick, being necessarily absent, did not participate in the disposition of this proceeding.

John E. Bryson
President

Richard L. Sturgeon

Richard D. Howell

Samuel J. Lewis
Commissioners