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Decision No. 91805 MAY 20 1980

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 Billing Factors in Accordance with the Energy Cost Adjustment Clause as Modified by Interim Decision No. 91277	Application No. 59499 (Filed March 5, 1980)

John R. Bury, William E. Marx, Richard K. Durant, Carol B. Henningson, by Carol B. Henningson, Attorney at Law, for Southern California Edison Company, applicant.
Hy Finkel, for Seniors for Legislative Issues; Herman Mulman, for Seniors for Political Action; and Patricia Price, for American Council of the Blind, Los Angeles Metro Chapter, protestants.
Downey, Brand, Seymour & Rohwer, by Philip A. Stohr, Attorney at Law, for General Motors Corporation, Otis M. Smith, General Counsel, Julius Jay Hollis, Attorney at Law; Jennifer R. Lewis, for San Diego Gas & Electric Company; Robert W. Schempp, for Metropolitan Water District; and Glen J. Sullivan, Attorney at Law, for California Farm Bureau; interested parties.
James T. Quinn, Attorney at Law, for the Commission staff.

INTERIM OPINION

I. Introduction

By Application 59499, filed March 5, 1980, Southern California Edison Company (Edison) requests certain increases in its Energy Cost Adjustment Billing Factor (ECABF) estimated to produce an increase in annual retail revenues of $740.6 million, effective May 1, 1980. The matter was set to be heard in two parts-the first relating to the calculation of the revenue requirement and the associated rate increase, the second relating to the consideration of an incentive formula applicable to Edison's coal plant capacity factors. Hearings on the first part were held in Los Angeles on April 14, 15, and 16, 1980, before Administrative Law Judge Patrick J. Power, and submitted on oral argument.

The first day of the hearing was well-attended by the public. At the outset the opportunity was afforded the public to make statements or offer testimony on the record. Four persons responded - Hy Finkel of the Seniors for Legislative Issues, and Patricia Price representing the American Council of the Blind, Los Angeles Metro Chapter, offered sworn testimony; Herman Mulman of Seniors for Political Action, and Judy Moody representing an Orange County homeowners group, made statements.

Edison presented the testimony of 5 witnesses and 11 exhibits in support of its application. Testifying on behalf of Edison were Philip D. Lester, Senior Rate Specialist, Paul E. Skvarna, Supervisor of System Forecasts, Gary L. Schoonyan, Supervising Production Engineer, Robert H. Bridenbecker, Manager of Fuel Procurement, and Thomas R. McDaniel, Assistant Treasurer and Manager of Cash Management. The Commission staff appeared and offered the testimony of 3 witnesses and 4 exhibits in support of its position. Testifying on behalf of staff were J. Archie Johnson, Financial Examiner II, Richard Finnstrom, Senior Utilities Engineer, and Julian Ajello, Senior Utilities Engineer. General Motors (GM) and the California Farm Bureau Federation (Farm Bureau) participated by way of cross-examination and argument.

At the hearing Edison announced that it had reduced the amount of its request by about $74 million, to $666 million on an annual basis. The reductions are the result of Edison's decision to convert from bimonthly to monthly billing, increasing recorded sales for the record period, and a lesser than anticipated undercollection balance in the balancing account as of March.

II. Summary of Decision

The annualized revenue effect of the adopted rates is $560.4 million, $106.4 million less than requested by Edison, and $49.6 million less than proposed by staff. The basis of the reduction is a lower adopted estimated balancing account balance and a lower adopted fuel oil price. The adopted estimated gas price is higher than proposed by any party and is based on more current information.

The rate increase is spread on an adjusted uniform cents per kilowatt-hour basis. A three-tier residential rate design is not adopted because of inadequate data. The system average increase is 17.6 percent; the lifeline increase is 7.3 percent.

III. Summary of the Record

Edison based its filing on its authorized Energy Cost Adjustment Clause (ECAC) tariff provisions, as modified by Decision No. 91227 dated January 29, 1980 (interim decision in OII 56). The salient features of that decision that impact on this specific proceeding are the use of estimated fuel prices and balancing account balance, a forecasted resource mix, estimated sales, and the deferral of issues relating to the reasonableness of fuel expense (except with regard to the coal plant capacity factor issue). The May 1st revision date that is the basis of this filing is Edison's previously scheduled revision date.

Edison witness Lester testified regarding the calculation of Edison's proposed ECABF and sponsored exhibits consisting of existing and proposed revised tariff pages. He also testified regarding the recalculation of the Fuel Collection Balance Adjustment Billing Factor to reflect the higher interest rate made applicable to the underlying refunds.

Edison witness Skvarna testified regarding the kilowatt-hour sales estimate that is the basis for its application. He discussed the methodology used by Edison to make annual forecasts and the apportionment of annual sales to monthly estimates. These estimates are used by Edison's System Operations department in the development of the fuel budget.

Edison witness Schoonyan testified in support of the procedure for the development of Edison's fuel, purchased power and interchange budget, and the resulting forecast of Edison's energy mix for the test period. By Decision No. 91277, it is Edison's forecasted resource mix that will control the calculation of the revenue requirement in this proceeding.

Mr. Bridenbecker testified regarding the estimated fuel prices as of the May 1st revision date that were used to calculate the proposed billing factors. He explained the specific method for developing each fuel price. He also testified in response to a specific direction by this Commission that Edison provide "more complete evidence on the reasonableness of the underlift charges under the Chevron contract for fuel oil".

Mr. McDaniel testified regarding Edison's cash flow situation and how it is affected by the recovery of energy costs under the revised ECAC procedure. He testified in support of the six-month amortization period of the balancing account undercollection and with respect to the financial community's interest in the revised ECAC procedures.

Staff witness Johnson testified regarding the scope and objectives of the audit by the staff of the Revenue Requirements Division, Financial Analysis, of certain accounting and financial records used by Edison in its calculations. The audit concentrated on the recorded oil, gas, coal, nuclear, and purchased power costs.

Staff witness Finnstrom testified regarding the Utilities Division's investigation into Edison's filing. He developed the staff's revenue requirement estimate and the underlying fuel price estimates and explained his methodology. He discussed the appropriate amortization period and sponsored a rate design recommendation.

Staff witness Ajello sponsored an exhibit containing three optional three-tier rate designs for domestic customers for the Commission's consideration. Because usage data from Edison was not available, the basis for his calculation was information supplied by Pacific Gas and Electric Company (PG&E).

Mr. Finkel expressed his outrage with certain Edison commercials and with Edison's level of earnings. He recited the names of Edison's directors and their primary business responsibilities. He argued that senior citizens in particular are the victims of Edison's high earnings and the directors' asserted conflicts of interest.

Patricia Price expressed her concern with the ability of the aged, blind, and disabled to absorb the continuing increases. She referred to a study she performed that indicates that in some instances the blind are having to choose between fuel and food.

Mr. Mulman stated his opinion that Commission proceedings are a charade and that people must organize to oppose rate increases. He asked that Commissioners be present at public witness hearings and that hearings be scheduled throughout the service territory. He complained about balancing accounts and the frequency of increases. He called for the formation of a new political party to represent senior citizens.

Mrs. Moody also asked that hearings be held in more locations for the convenience of the public. She expressed her concern for the ability of the people, particularly senior citizens, to pay the increases. She asked about utility advertising and the way in which percentages are calculated.

IV. Discussion

A. Revenue Requirement

Based on the material contained in the original application and its review of supporting materials, staff recommended an increase in the ECABF calculated to yield about $684 million dollars on an annual basis, about $57 million less than requested by Edison. Staff announced that it adopted the reductions offered by Edison and reduced the amount of its recommendation to about $610 million. The difference between the company and the staff is the result of different estimates of fuel prices.

The $74 million reduction is the result of two factors-the reduced estimated balancing account balance, which accounts for about $51 million of the reduction, and the conversion from bimonthly to monthly billing, which accounts for the other $23 million. The conversion saving is a one-time only effect that results from recording more sales in the test period, thereby allowing the dollar recovery to be spread over more sales.

The record indicates that the reduced balancing account balance results from the substitution of recorded month-end February and March data for the estimated data contained in the application. The reductions largely result from less fuel oil in the resource mix and the substitution of cheaper fuels, particularly natural gas.

Edison declined to change its estimated results for April, and the staff recommendation is based on the same data. Nevertheless, we find no basis in the record to support the conclusion that conditions in April should be so materially different from February and March, particularly since those two months were so similar. Therefore for April we find it reasonable to impute March results and base the rates in this proceeding on a balancing account balance of $255,839,000, a reduction of $35,451,000.

The fuel price estimates of Edison and staff are as follows:

	Edison	Staff
Oil	$5.3991/$M^2$Btu	$5.250/$M^2$Btu
Gas	3.4430/M^2Btu	3.350/M^2Btu
Coal	0.6758/M^2Btu	0.6758/M^2Btu
Nuclear	6.7263/M^2kWh	5.330/M^2kWh

The differences in oil and gas prices result from different methods of estimating. The difference in nuclear prices is apparently at least in part the result of the staff expert's having relied on incomplete information.

With respect to oil prices, Edison started with its weighted average inventory price, predicted a 2-1/2 percent increase in Saudi Arabian light crude oil on April 1st, and developed a weighted average cost of oil for the test period. As of the submission of the proceeding, the increase had not occurred. Staff plotted certain recorded oil prices on a chart, and developed a trend line that indicated that its adopted oil price would prevail at the May 1st revision date.

Staff criticized Edison's method as a misinterpretation of this Commission's intention in Decision No. 91277 that the application be based on estimated prices as of the revision date. Staff argues that the use of the weighted average drives prices up unreasonably, and that lower prices will be incurred, at least through the period to the next scheduled revision date. Edison points out that the staff method projects an infinite price of fuel oil by September of this year and characterizes the method as inappropriate.

We are convinced that the method applied by Edison is more workable and likely to yield a reasonable result. We consider the development of a weighted average a reasonable interpretation of the language in Decision No. 91277, at least until the completion of the generic ECAC investigation, OII 56. Nevertheless, the price we adopt in this proceeding does not reflect the weighted average, because the predicted April 1st increase did not occur. Therefore we adopt as the current price Edison's estimated May 1st inventory price of $\$5.19/M^2$Btu.

With respect to the gas price, the material considerations are the pending Southern California Gas Company (SoCal) offset application and the recently decided PG&E proceeding (Decision No. 91720, in A.59249/59406). Even Edison's higher price is based on lower prices than proposed by staff and SoCal in the SoCal case and adopted by the Commission in the PG&E proceeding. Therefore it is reasonable to adopt a price of $\$3.60/M^2$Btu for the purpose of this application, without disposing of the issue for the SoCal case.

With respect to nuclear fuel prices, the staff expert apparently was unaware that Edison was refueling San Onofre Unit 1. The result is that the staff price is unrealistically low. Therefore, we adopt Edison's price.

For information purposes, the adopted prices are compared to recorded prices as of October 1, 1979.

	Recorded 10/1/79	Estimated 5/1/80	% Incr.
Oil	\$3.4952/M^2Btu	\$5.19/M^2Btu	48.5
Gas	2.5304/M^2Btu	3.60/M^2Btu	42.3
Coal	0.5915/M^2Btu	0.6758/M^2Btu	14.3
Nuclear	4.6578/M^2kWh	6.7263/MkWh	44.4

The average ECABF is derived as follows, based on six-month amortization of the balancing account undercollection:

TABLE 1

Estimated Cost of Forecasted Period Fuel and Purchased Power

	Quantities	Prices	Cost $M
Oil	287,691 M^{3}Btu	@ $5.19/M^{2}Btu	$1,493,116
Gas	153,247 M^{3}Btu	@ 3.60/M^{2}Btu	551,689
Coal	79,948 M^{3}Btu	@ 0.6758/M^{2}Btu	54,029
Nuclear	2,324 M^{2}kWh	@ 6.7263/M kWh	15,632
Purchased Power			171,898
Mono Power Company Fuel Service Charge			5,484
Subtotal			2,291,848
Less Energy Cost Recovered Through Off-System Sales			6,377
Estimated Cost of Fuel and Purchased Power for Forecasted Period			2,285,471

Average Energy Cost Adjustment Billing

	Generation M^{2}kWh	Cost $M	Sales M^{2}kWh	Factor ¢/kWh
Average Net Fuel and Purchased Power Adjustment Rate				
Edison System Excluding Catalina	62,887	$2,285,471	59,196	
Less Resale (included above)	4,591	169,484	4,466	
Sales Subject to ECABF		2,115,987	54,730	
Plus Provision for 1.00% Franchise Fees and Uncollectible Expense		21,160		
		2,137,147	54,730	3.905
Balancing Rate				
Accumulated Differential Estimated as of May 1, 1980		255,839		
Less Amount Deferred by Decision No. 90967 related to Coal Plant Performance		35,000		
Subtotal		220,839		
Plus provision for 1.00% Franchise Fees and Uncollectible Expense		2,208		
ECAC Balancing Rate Based Upon Six-month Amortization		223,047	28,224	.790
Average Energy Cost Adjustment Billing Factor				4.695

The test-year revenue effect is derived as follows:

	¢/kWh
Adopted ECABF	4.695
Present ECABF	3.671
Difference	1.024

Based on adopted sales, the annualized revenue effect of the increase is $560.4 million. Based on six months amortization, the actual revenue to be derived from this increase in the test period is estimated to be $351.1 million. The authorized relief is about $106 million less than requested by Edison and $50 million less than recommended by staff.

This calculation does not reflect the increase in the Fuel Collection Balance Adjustment Billing Factor from .107¢/kWh to .121¢/kWh proposed by Edison and unopposed by any party. This factor is the means by which Edison is making refunds ordered by the Commission of overcollections under the prior fuel clause. The change proposed reflects the change in the interest rate applicable to the remaining balance as provided by Decision No. 91269. The proposed modification is reasonable.

Finally with respect to the revenue requirement, staff counsel raised several issues that should be addressed briefly. These are the matter of the gas supply estimates underlying the adopted resource mix, and the income tax advantages associated with undercollection.

With respect to gas supply, staff counsel incorporated into this record certain evidence in the pending SoCal general rate case in which the staff witness estimates more gas on the SoCal system than estimated by SoCal. Staff counsel suggests that these estimates should be reflected in Edison's fuel procurement strategy.

We expressly provided in Decision No. 91277 that Edison's fuel procurement strategy resource mix would be adopted in this proceeding. Our purpose was to relieve the parties from the burden of having to examine the reasonableness of Edison's estimates, and to allow this case to be expedited for the reasons stated in that decision. Based on this record, we are satisfied that our choice was appropriate.

We don't disagree with staff counsel that the gas volumes available to SoCal during the test period are likely to be higher than reflected in the fuel mix adopted for this proceeding. But there is a major distinction between gas available and gas purchased. For example, we have just set PG&E rates on the basis of 90 percent of its Canadian obligation, even though we are certain that over 100 percent will be available. But the favorable hydro conditions and high gas prices make the matter of the volumes of gas delivered to Edison a highly speculative matter, and we decline to deviate from our declared direction.

With regard to taxes, staff counsel contends that Edison has overlooked the tax advantage that occurs because undercollection is tax deductible. We have consistently declined to consider such tax effects in offset proceedings and can see no basis to change our practice. Applying the same reasoning, recovery of undercollection would need to be on a two-for-one basis to reflect the increased tax liability. The result is a wash.

B. Rate Design

By Decision No. 90967 we provided that in subsequent ECAC proceedings the burden of rate increases would be borne by all classes of customers on a uniform ¢/kWh basis, and that within the domestic class the burden would be on nonlifeline rates. Initially we consider whether to refine our guideline by implementing a three-tier design within the domestic class.

We are convinced that a three-tier domestic rate design that features steeply inverted rates can operate as a meaningful conservation measure. However, in this proceeding the nonlifeline usage characteristics of the Edison domestic customer class was unavailable, and the alternative rate design calculations are based on PG&E data. Every party cautions us against relying on such data and asks that we defer any significant changes in rate design until Edison has completed certain studies. We recognize the reasonableness of this advice and defer consideration of this matter to the next Edison ECAC filing.

The major remaining rate design issue is the interpretation of the language: "the burden of future ECAC rate increases (shall) be borne by all classes of customers on a uniform ¢/kWh basis." Edison and staff agree that prior to spreading the increase, an adjustment is necessary to nonresidential rates so as to raise the average system rate to a rate equal to the average domestic rate. The amount of the adjustment is .066¢/kWh. GM and Farm Bureau contend that the adjustment should not be made.

We adopt the adjustment as a reasonable interpretation of our intention expressed in Decision No. 90967 and Decision No. 91416. The average domestic rate equal to the average system rate is a condition precedent to the application of our rate design principles.

We further adopt as reasonable for the purpose of this proceeding Edison's recalculation of the domestic sales within the lifeline class, based on recorded 1979 data, reflecting the effect of the lifeline airconditioning allowance. We expect this matter to be explored further with the prospect that an average year number can be developed.

Based on the foregoing, the revenue effect of the adjustment to reach a uniform average rate is $24.8 million. Thus the remainder to be recovered on a uniform ¢/kWh basis is $535.6 million. The resulting factor is .979¢/kWh. Within the domestic class, based upon our established policy that the total nonlifeline residential rate should be set so as to exceed the total average lifeline rate by up to fifty percent, it is reasonable to increase the lifeline factor by .385¢/kWh; and to increase the nonlifeline factor by 1.645¢/kWh. The resulting rate design is as follows:

TABLE 2

Revenue Class	Sales M^2kWh	Present ECAC Rates ¢/kWh	Present Rates ¢/kWh	FCBABF Increase ¢/kWh	Adjusted To Uniform Ave. Rate ¢/kWh	ECAC Increase ¢/kWh	Adopted ECAC Rates ¢/kWh	Resulting Rates ¢/kWh	% Increase
Residential									
Lifeline	9,044	2.168	5.102	-.014	-	.385	2.553	5.473	7.3
Nonlifeline	8,085	4.219	6.579	-.014	-	1.645	5.864	8.210	24.8
Total	17,129	3.136	5.799	-.014	-	.979	4.116	6.764	16.6
Agricultural	1,114	3.915	5.989	-.014	.066	.979	4.960	7.02	17.2
Commercial	14,736	3.915	6.080	-.014	.066	.979	4.960	7.111	17.0
Industrial	17,094	3.915	5.320	-.014	.066	.979	4.960	6.351	19.4
Other Public Authorities	4,657	3.915	6.089	-.014	.066	.979	4.960	7.120	16.9
Total CPUC **Jurisdictional**									
Subject to ECAC	54,730	3.671	5.754	-.014	.045	.979	4.695	6.764	17.6
Nonresidential	37,601	3.915	5.733	-.014	.066	.979	4.960	6.764	18.0

C. Other Matters

In Decision No. 90967, dated October 23, 1979, we said as follows:

> "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."

A portion of Mr. Bridenbecker's testimony was in response to this directive.

Edison characterizes the payments as "facility charges" rather than "underlift charges". The charge is intended to compensate Chevron for the fixed operating costs and capital charges related to its obligation to be prepared to supply the full contract delivery amount. Edison contends that "it is not reasonable to expect that a seller of fuel would provide the buyer the privilege of adjusting at will the quantity of fuel required to meet buyer's demand, unless the seller is compensated for costs it incurs in being ready to meet its full contract delivery obligation".

We are satisfied that Edison has demonstrated a reasonable basis for the specific contract terms and for the liabilities arising thereunder. However, we note that the recovery of such charges in ECAC or in base rates is an issue in the generic ECAC investigation, OII 56.

With respect to the points raised by the public witness (and in many letters), we are very much concerned about the ability of individuals and business to absorb these increases. It is important to understand the statutory context in which these proceedings take place.

A major factor in the size of this increase is the lamentable extent of the undercollection that has accrued pursuant to ECAC. Section 792.5 of the Public Utilities Code requires a balancing account in offset proceedings. A large undercollection requires that rates be set substantially higher than otherwise, simply to catch up to recorded costs. By the scheduled catch up time, costs have risen further, and more undercollection has occurred. We hope to alleviate this problem in our final decision in OII 56.

With respect to rate design, our discretion is ultimately limited by our interpretation of Section 739 of the Public Utilities Code. We have focused our construction of the statute on the conservation features of rate design, rather than a means test and ability to pay. We suggest that a different interpretation is the province of the Legislature.

Finally, we are not inclined to provide for public witness hearings throughout the service territory in offset proceedings. We have held and hope to continue to hold such hearings in general rate cases. The material difference is the nature and extent of the issues, even though the offset cases frequently involve more money. We know that people are unhappy about rate increases. Our resources are in fact limited, and we are struggling to provide for out-of-town hearings in the most critical of cases.

Our determinations in this matter are necessarily tentative in nature, pending the outcome of OII 56 and the determination of ECAC-related expenses, as well as a full examination of the reasonableness of Edison's practices. Final adjustments upward or downward may be appropriate, depending on the result of these inquiries and the transition method developed in OII 56. Similarly, fuel expense for the record period is subject to recalculation upon the completion of this proceeding and the determination of a coal plant capacity factor incentive procedure. In view of the present status of OII 56, it is appropriate to provide that Edison shall make its next filing based on a September 1st revision date and the procedures as modified by Decision No. 91277.

Findings of Fact

1. By Application 59499 Edison seeks an increase in its ECABF estimated to produce annualized revenues of $666.6 million.

2. Staff proposes an increase of about $610 million.

3. For balancing account estimating purposes it is reasonable to apply March recorded results to April.

4. A reasonable estimate of Edison's balancing account undercollection as of May 1, 1980 is $255.8 million.

5. A weighted average basis is a reasonable method of estimating fuel oil prices as of the revision date.

6. The adopted price estimates are reasonable.

7. Edison's fuel procurement strategy resource mix is a reasonable basis for setting rates.

8. An increase in the average ECABF of 1.024¢/kWh estimated to produce annualized revenues of $560.4 million is reasonable.

9. An increase in the Fuel Collection Balance Adjustment Billing Factor to reflect higher interest applied to the account is reasonable.

10. Before spreading the rate increase on a uniform ¢/kWh basis, it is reasonable to adjust present rates so as to provide that the system average rate is equal to the residential average rate.

11. A total nonlifeline residential rate 1.5 times the total average lifeline rate is reasonable.

12. A three-tier residential rate design should be considered when Edison price elasticity studies are completed.

Conclusions of Law

1. Edison should be authorized to establish the revised ECAC billing factors set forth in the following order.

2. Because of substantial undercollection and the scheduled revision date having passed, the effective date of this order should be the date hereof.

INTERIM ORDER

IT IS ORDERED that:

1. Southern California Edison Company (Edison) is authorized to establish and 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 of ECAC billing factors as follows:

Residential	
Lifeline	2.553¢/kWh
Nonlifeline	5.864¢/kWh
All Other Schedules	4.960¢/kWh

2. Edison shall expeditiously complete the elasticity of demand and related studies relative to its domestic customers, as previously ordered by Decision No. 91416, which denied rehearing of Application No. 58764. These studies shall be presented in Edison's next ECAC proceeding.

3. The ECAC balancing account for this record period is subject to further review with respect to the reasonableness of recorded expenses.

The effective date of this order is the date hereof.

Dated MAY 20 1980, at San Francisco, California.

John E. Bryson
President

Vernon L. Sturgeon

Richard D. Gravelle

Claire T. Dedrick

Leonard M. Grimes, Jr.
Commissioners