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Decision 93129 JUN 2 1981

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 Catalina Energy Cost Adjustment Billing Factors in accordance with the Catalina Energy Cost Adjustment Clause established in Decision No. 91561 and general provision relating to Energy Cost Adjustment Clauses contained in Interim Decision No. 91277.	Application 59830 (Filed July 23, 1980; amended September 24, 1980)

Robert Kendall, Attorney at Law, for applicant.
John Longley, City Manager, for the City of Avalon1/; and Dennis F. Reitinger, for DFR Transport, Inc.; interested parties.
Thomas F. Grant, Attorney at Law, for the Commission staff.

O P I N I O N

Summary

Southern California Edison Company (Edison) requested an increase in its Catalina Island (Catalina) electric revenues, under the Energy Cost Adjustment Clause (ECAC) procedure, of $950,400 (78.2%). Catalina residents recommended the integration of Edison's Catalina electric rates with its mainland electric rates to avoid

1/ Several City of Avalon (Avalon) officials testified or made statements at the October 23 and 24, 1980 hearings. Council member (and former mayor) Hugh T. Bud Smith was authorized to file a closing statement. By letter dated December 4, 1980, John Longley requested that Avalon be listed as an interested party. This unopposed request was granted.

the large ECAC increases. Edison concurred with that concept and requested that the Commission reopen its earlier Catalina gas, electric, and water general rate applications to combine Catalina electric rates with its mainland electric rates and to increase its water and gas rates. This decision merges Catalina ECAC rates with mainland ECAC rates and adds a 2¢/kWh surcharge to amortize the Catalina fuel balancing account on the date Edison's new mainland ECAC rates become effective. These changes increase Catalina revenues by $400,000 (32.9%) over rates in effect on the date of filing, and by 27.0% over rates in effect today.

Background

The principal business of Edison, a California corporation, is to provide electric utility service to over three million customers in 15 counties in central and southern California.

By Decision (D.) 64420 dated October 23, 1962 in Application (A.) 44684, Edison was granted authority to acquire and operate the water, gas, and electric facilities serving Catalina at the rates then in effect. Edison was authorized to restructure[2/] its Catalina electric rate schedules by D.78197 dated January 19, 1971

2/ The new rates were designed to yield about the same revenue level as the old rates.

in A.52010. On September 1, 1978 Edison filed its first general rate increase applications for Catalina: A.58329 to increase its water rates; A.58330 to increase its gas rates; and A.58331 to increase its electric rates. The three applications were consolidated for hearing. In D.91561 dated April 15, 1980, Edison was authorized to increase its electric and water rates and to include an ECAC in its Catalina tariffs. In D.92059 dated July 29, 1980 Edison was authorized to increase its gas rates and to establish a Gas Cost Adjustment Clause (GCAC) in its Catalina tariffs.

The electric rate increase of $529,800 (73.6%) was spread in two steps. The second step of $264,500 was made effective on May 1, 1981.

Edison's Proposals

Edison uses diesel-generating equipment to supply power to Catalina. Edison filed this application to recover its rapidly escalating diesel oil expenditures following the ECAC procedure. In order to provide more timely relief under ECAC procedures and to avoid cash-flow burdens associated with large undercollections, the Commission issued D.91277 dated January 29, 1980 in Order Instituting Investigation (OII) 56. Based on that decision, Edison moved up the filing date for its Catalina ECAC proposal.[3/] If its Catalina electric ECAC is kept separate from its mainland ECAC, Edison proposes to request annual Catalina ECAC adjustments pursuant to D.91561 rather than use the four-month period set forth in D.91277.

3/ This advancement of the ECAC scheduling conflicts with the requirement for the simultaneous filing of Catalina GCAC and ECAC increases ordered in D.92059.

Edison originally calculated the revised Catalina Energy Cost Adjustment Billing Factor (CECABF) following the procedures described in D.91277. The amendment corrected certain errors in calculations. Subsequently, Edison modified its proposal using more recent fuel cost data and more up-to-date Energy Cost Adjustment Account (balancing account) estimates to develop a forecast which is in conformity with the staff proposal.

D.90967 provides that the burden of future ECAC rate increases be borne by all classes of customers on a uniform cents per kilowatt-hour (¢/kWh) basis but that within the domestic class the burden would be principally on nonlifeline rates. The disparity between the lifeline and nonlifeline domestic rates is intended to encourage conservation efforts. Both staff and Edison recommended a 25% differential between lifeline and nonlifeline domestic rates. The average domestic rate was set equal to average system rate. Edison originally proposed an overall increase of 92.7% over present rates.

In Exhibit 7 Edison presented alternate rate designs increasing ECAC rates for all consumption by an equal amount of 5.982¢/kWh and increasing rates for all classes of service by 5.982¢/kWh, while maintaining a 25% differential between lifeline and nonlifeline domestic rates. These alternates would partially mitigate the impact of the increase on domestic customers but they would not yield average domestic rates equal to system average rates. Edison's rate design witness supported the latter alternative which has the least impact on the domestic customer. The staff rate design witness does not support that approach. He supports a uniform treatment between utilities based on D.90967 which sets domestic ECAC rates at a level equal to system average ECAC rates. The following tabulation compares CECABF under three alternatives designed to spread an increase of $950,400:

Item	Catalina Energy Cost Adjustment Billing Factor ¢/kWh: Present Rates	Staff & Edison Revised CECABF Increase Proposal	Uniform Increase For All Consumption	Uniform Increase by Class With 25% Lifeline-Nonlifeline Differential
Lifeline	3.965	9.518	9.947	9.034 1/
Nonlifeline Domestic	3.965	12.494	9.947	11.887 1/
Nondomestic	3.965	9.735	9.947	9.947

The following tabulation shows the revenue impact, by class, of the alternative rate designs:

Customer Group	Sales MWH	Staff & Edison Revised CECAC Increase Proposal M$	%	Uniform ¢/kWh Increase For All Consumption M$	%	Uniform ¢/kWh Increase by Class With 25% Lifeline-Nonlifeline Differential M$	%
Domestic							
Lifeline	3,120	173.2	78.5	186.6	84.6	158.1	71.7
Nonlifeline	1,468	125.2	117.7	87.8	82.5	116.3	109.3
Subtotal	4,588	298.4	91.3	274.4	83.9	274.4	83.9
General Service	10,283	593.3	70.8	615.2	73.4	615.2	73.4
Street Lighting	67	3.9	36.8	4.0	37.7	4.0	37.7
Pumping	949	54.8	136.0	56.8	140.9	56.8	140.9
Total	15,887	950.4	78.2	950.4	78.2	950.4	78.2

1/ Average CECABF for residential service is 9.947¢/kWh.

Hearings

After notice, hearings were held in Avalon on October 23 and 24, 1980 before Administrative Law Judge Levander. The hearings were held in Avalon to afford Edison's customers an opportunity to present their views on this application. Due to the large number of customers appearing, it was necessary to change the hearing location from City Hall to the high school auditorium.

The matter was submitted subject to the receipt of a late-filed exhibit and of briefs which have been received.

Public Witness Testimony

Ten members of the public, including Avalon officials, members of the local business community, retirees, and the chairman of Avalon's Water and Energy Committee, either testified or presented short statements. Exhibit 1 contains petitions signed by 900 to 1,000 Catalina residents (reportedly most of the adult population of Catalina) requesting (a) the reopening of the Catalina general rate cases; (b) a review of the alternate option rates submitted by Edison in those proceedings; and (c) a review of the policy calling for separate rate treatment for Catalina because of changes in the economy and in technology, including the availability of new sources of energy which benefit mainland users, and due to the tremendous increase in diesel fuel costs. Petitioners contend that: (a) Edison has uniform mainland rates but costs of service in some mainland areas are greater than income from the users in those areas; (b) Catalina is an integral part of Edison's system and Catalina's residents should benefit from the advanced technology and new sources of energy developed and used by Edison to provide lower rates to its other customers; and (c) that the rate differentials between Catalina and the mainland are discriminatory.

Petitioners believe that Catalina's electric rates are or will be the highest or among the highest rates in the nation. They state that these rates work a hardship on Catalina residents, most of whom are retired on fixed incomes or are low and moderate income employees; these high rates will increase business operational costs and will create inflationary pressures. They cite D.84902 which, in part, states that customer acceptance is a factor to be considered in designing rates.

Exhibit 2, a letter dated October 23, 1980, states the position of Avalon's council on this proceeding. The council expressed concern about the effect of the increase on the local economy and on working people and requests consolidation of Catalina's electric rates with the mainland rates. The letter further states:

> ". . . Such an action would equalize throughout the Edison system the cost of electrical energy. Such an equalization would be fair to the people of the system and would properly establish for Edison a cost center that they should work and invest to correct. The only way a business functions efficiently is to require its management to integrate its operation and to increase the profit in its most energy inefficient divisions. . . ."

All of the public witnesses supported integration of Catalina's electric rates with Edison's mainland rates. The individual witnesses amplified upon issues raised in Exhibits 1 and 2.

Rudy Piltch, the planning director for the Santa Catalina Island Company (and former mayor of Avalon), stated that the State Legislature reviewed the 1975 Coastal Plan for the State of California and recognized that Catalina was an important statewide recreational resource which should be preserved for the people of the State of California; the Los Angeles County General Plan contains a similar statement describing Catalina as an important regional recreational resource for Los Angeles County; and that over one million visitors per year come to Catalina, including 700,000 visitors to Avalon and others using the coves and camps located on the island. He believes that since the island serves people throughout Edison's mainland service area, integration of Catalina's rates with the mainland is an appropriate way of maintaining Catalina as a recreational resource.

Edison's Presentation

Lynn Ellen Myers, a professional engineer, prepared the exhibits and testified on the basis used to calculate the original and alternate CECABFs and revenue spreads discussed above.

Robert B. Beck, Edison's southern division vice president, testified that Edison submitted an alternate proposal for merging its Catalina electric rates and fuel adjustment clause balancing account into its mainland rates in the prior Catalina general rate increase proceedings. He testified that Edison recognized that the financial burden on its Catalina customers would be greater than on its other customers, and it felt that that alternate was appropriate at that time and is appropriate at this time. He testified that Edison and staff could lessen their expenses by the elimination of processing separate electric rate proceedings for Catalina. Edison would not object to a reopening of A.58329, A.58330, and A.58331 to reconsider those optional rates which spread the amount of proposed electric rate increase to its gas and water operations.4/

4/ Edison's original rate proposals sought to eliminate the losses from its Catalina operations and to yield nominal rates of return of 0.1% on its gas operation, 0.8% on its water operation, and 0.00% on its electric operation. Its alternate rate proposals were designed to yield 5.3% on its gas and water operations and to have its mainland electric customers absorb present losses from its Catalina electric operations.

He further testified that the density criteria used to establish zone rates have now been eliminated on the mainland. He believed that there were isolated desert communities served by Edison in which revenues were not sufficient to cover its costs.

Beck also testified that in the early years following Edison's acquisition of the Catalina utilities it carried out engineering studies on the possibility of constructing a cable between the mainland and Catalina. It determined that such construction was impractical from a technical standpoint because current shifts in the Catalina channel would move the cables over the underlying rock structure in mid-channel, which would have an abrasive effect on the cables which could result in interruptions of service for long durations of time and that at best, Edison would incur very expensive maintenance costs to operate in this manner. A more recent cursory analysis indicates that Edison would incur multimillion dollar construction costs to make such a connection and that maintenance could be quite substantial even with the new technology available today.

Robert L. Adamson, Edison's Catalina district manager, described the measures being taken to improve the efficiency of the five diesel generators used to provide power to Catalina. One procedure involves taking measurements of generator efficiency at various load levels for each unit, working out combinations of generators, and generator loadings to meet different levels of electric demand and to minimize fuel consumption. He estimates that this process will improve Edison's diesel generation efficiency by 1 to 1-1/2% and save $7,000 per year in fuel bills. In addition, the generators are electronically tuned twice a year and careful quality controls are maintained on the generators' oil systems to permit operations at maximum efficiencies and to provide for early detection of problems. Due to this program Edison has been able to extend the period between its generator overhauls from 8,000 hours to 14,000 hours of operation.

Edison is planning to install an experimental 15-kilowatt (kW) hydrogenerator to utilize the available 1,300-foot head on its water pipeline. If the tests prove out, two larger hydrogenerator units and a surge tank may be required to regulate flow variations, related to widely varying water demands, and to efficiently operate at 75 kW of capacity. He believes that hydrogeneration can potentially meet 2% of Catalina's energy requirements and that proper scheduling of hydrogeneration, together with the load management of its diesel generators, can further improve the diesel efficiency by another 1%.

Edison was unsuccessful in obtaining federal aid in installing a solar power plant. Edison is conducting feasibility studies involving the use of photovoltaic cells to generate electricity in two to four years. It is in the process of monitoring wind velocities to determine the feasibility of installing wind generators. He stated that "the first five months of data at least look favorable. I wouldn't say really great, but better than average." Edison also looked at the possibility of converting solid wastes to gas which can be burned in its diesel generators. This alternative appears to be too costly at this time.

In reference to the alternate rate proposals advanced in the general rate proceedings, he believed that the fuel cost for Edison's gas system is higher than gas purchased on the mainland; that Catalina's gas cost is not as great as its electric fuel cost; and that a customer's gas bill increase would not be as great as his electric bill increase.[5/]

5/ D.92059 states that:

"Since the application was originally submitted in September 1978, the cost of [liquefied petroleum] gas has increased from an average cost of $.27889...per gallon in the test year to $.42678...per gallon as set forth in Edison's Advice Letter No. 57-6 and the rates reflecting such price increases are presently effective and were approved by Commission Resolution No. G-2349 on May 20, 1980. . . ."

In late-filed Exhibit 9 Edison explains its diesel oil procurement policies. Edison states that its supplier, Chevron-El Segundo, is competitive with other diesel fuel suppliers. In 1980 Chevron's price for delivery at Avalon has ranged from \$0.06 to \$0.10 per gallon above the posted price at its dock in San Pedro. Chevron's combined fuel and transportation charges to Avalon are well below the combined costs of other potential suppliers.

Staff Presentation

Ishwar Chander Garg, a professional engineer, developed the CECABF originally adopted by Edison which contains average domestic rates equal to the average system rate. The following tabulation shows the impact of the general rate increase and of the staff-recommended CECABFs in this proceeding on a residential customer using 500 kilowatt-hours (kWh) per month and a 240 kWh basic lifeline allowance.

Rate Level	Monthly Residential Bill
Prior to April 1980	\$24.90
At Present Rates	35.43
At Present Rates Plus CECABF Increase	70.93
At Rates After May 1, 1981, Including CECABF Increase and Authorized Base Rate Increase	78.74

Garg developed CECABFs based on a fuel cost forecast of \$1,407,992, calculated according to Section K of the preliminary statement in Edison's tariffs, modified by the interim decision in OII 56, and a projected undercollection balance of \$237,477. He further testified that diesel fuel oil costs have increased from 42.4 cents to 98.4 cents per gallon, a 132% increase between January 1979 and July 1980. He testified that if the alternate rates (contained on the second page of Exhibit 7) were adopted, then the domestic customer would wind up paying more for his purchases in stores and in his water rates. The alternate rates would assign a larger proportion of the increase to commercial customers than his proposal, which is based on Commission-established policy, and the commercial users, in turn, would pass through increased electric costs to their customers. He agreed that tourists buy a greater proportion of goods sold on Catalina than do tourists on the mainland.

Argument

Edison requests that the Commission reopen the three general rate increase applications and to take additional evidence in those proceedings and in this proceeding. Edison wants the Commission to (a) integrate Catalina electric base rates with mainland base rates; (b) abolish the Catalina ECAC and bill Catalina's electric customers using Edison's mainland ECAC schedule; (c) collect all ECAC costs associated with its Catalina electric operations in the mainland ECAC balancing account, effective on the decision date of the reopened application; (d) amortize the balance in the Catalina balancing account as of the date of the decision in the reopened proceedings over a two-year period through a surcharge applied to all customers taking service during that two-year period; and (e) increase its Catalina gas and electric rates to the level of the option rates proposed in the prior rate applications.

Edison sees its proposals as a means of mitigating the high electric rates resulting from the high costs needed to serve Catalina and of permitting it to defer the filing of new gas and water rate increases, which would reduce the administrative burden on its staff and on the Commission staff.

In the alternative, if the Commission continues the existing Catalina ratemaking procedure, Edison requests approval of its proposed CECABFs.

The staff brief sets out two opposing positions. The Utilities Division supports the Commission's prior position rejecting rate consolidation as set forth in D.91561 because unit costs are greater to generate electricity on Catalina than on the mainland. It believes there is a lack of justification for a mainland subsidy of Catalina rates due to the total separation of systems, the economy of interconnections and shared plant on the mainland which do not exist on Catalina, and the counterproductive effect on conservation flowing from giving inappropriate price signals to Catalina's customers in the face of a 132% increase in fuel costs between January 1979 and July 1980.

The Legal Division recommends integration of Catalina's rates with the mainland to substantially alleviate the crushing burden on Edison's Catalina customers caused by present and future rate increases by placing a relatively small burden on Edison's mainland customers. The Legal Division agrees in principle with the concept of charging readily determined costs to the customers using the service. But Legal Division contends that when this concept is applied to the specific conditions of the Edison Catalina and mainland systems, the Catalina customers are subjected to unjustly high and needlessly burdensome electric rates. In other words, the strict application of a reasonable ratemaking theory here produces unreasonable rates. Legal Division further argues that: (a) Catalina's customers consider themselves part of the mainland system and consider it inequitable to charge them higher rates than mainland customers; (b) the rate disparity will continue to grow if the Commission continues on its present course, which can lead to problems for Edison and for the Commission; (c) there are disparities in the cost to serve different portions of the mainland, which result in subsidies to some mainland customers; (d) Catalina residents are aware of the need for conservation; and (e) that rates would be high enough even with consolidation of rates to encourage conservation. The Legal Division also recommends reopening of the prior rate applications and consolidation of those applications with this proceeding as the appropriate vehicle to achieve these results.

Avalon argues that: (a) staff arguments opposed to rate integration of Catalina with the mainland consider that the common thread for electric ratemaking purposes is a system interconnection; (b) the correct common thread to consider is a unified management which allocates scarce resources, including capital, to competing operations; (c) the rate separation of Catalina from the mainland is fictional, artificial, and inherently unequal in application; (d) the average residential customer would have to pay $226 more per year and the average commercial customer would pay an additional $1,271 per year at proposed rates; (e) recent studies show that the cost of living is 23 to 25% higher on Catalina than on the mainland; (f) the proposed increases would unfairly burden Catalina's residents and businesses and harm the island's economy; and finally (g) that the Commission should consolidate Catalina's rates with the mainland.

Discussion

The primary issue discussed in D.91561 is whether "Edison's Catalina electric operations should continue to be viewed as a separate and isolated system, or should be combined with Edison's mainland electric retail operation for ratemaking purposes." (See mimeo. pages 13 through 21, inclusive.) The Commission rejected that integration because it would endorse below-cost electric rates for Catalina customers which would result in wasteful electric consumption. We recognized that utility rates would continue to rise in the foreseeable future until cheaper and more reliable energy sources are developed.

However, the rapidity of the fuel cost increases affecting Edison's Catalina operations and the impact of the proposed and alternate CECABFs discussed above call for a modification of the Catalina rate policy described in D.91561. Authorization of the CECABFs sought by Edison would be a case of overkill in accomplishing desirable conservation and cost responsibility goals. On the other hand, total integration of the Catalina and mainland rates (ECAC and base rates) would not give any recognition to the fact that Edison's investment and operating costs per Catalina customer are considerably higher than on the mainland and would not give recognition to potential impacts on Edison's gas operations which also have to absorb escalating fuel costs.

Avalon's own studies show that it costs more to live on Catalina than on the mainland. The benefits of living on that island have to be weighed against those costs. Had Edison not acquired the Catalina utilities, it is likely that utility rates on Catalina would be at higher levels than proposed by Edison and there would be no possibility of combining Catalina rates with mainland rates. While the telephone company can use wireless technology to bring communications to Catalina, there is not a practical method of bringing electricity from the mainland to Catalina. Construction of a larger, more fuel-efficient fossil fuel plant on Catalina would be costly, oversized, and incompatible with the recreational character of the island. Edison is taking reasonable steps to develop feasible, alternate energy sources for Catalina. It is appropriate to consider Edison's existing investment on Catalina by preservation of separate base rates.

The compromise adopted in this proceeding will be to integrate the Catalina ECAC procedure with the mainland ECAC procedure, which may include establishment of an Annual Energy Rate (AER), and to establish a surcharge of 2¢/kWh to amortize undercollections in the Catalina balancing account, including accrued interest charges and prospective interest charges during the amortization period. This surcharge should amortize the balancing account in two or three years. Edison should provide the Commission and the parties to this proceeding with an updated estimate of the deficit in the balancing account and of the estimated amortization period as of the date the ECAC procedures are combined. The surcharge would terminate after full amortization of the balancing account. A minor overcollection is likely on the last billing amortizing the balancing account. Edison should issue billing credits for those overcollections. There is a pending mainland ECAC proceeding, A.60321. It would be appropriate to integrate the ECAC procedures and establish the surcharge as of the effective date of the new mainland ECAC billing factors. In A.60321 Edison also seeks authorization for an AER procedure which would involve revised ratemaking treatment for its fuel oil inventory, facility charges, underlift charges, gains, and/or losses in oil sales, and adjustments for 2% of its net fuel and purchased power expenses.

Since Edison provides gas utility service only on Catalina, there is no way to shift the fuel costs of that operation into a larger operation. Liquid petroleum gas price increases for Edison's gas system have paralleled increases in diesel fuel costs.

The transfer of a portion of Catalina ECAC charges to the mainland users could produce a cost differential sufficient to induce customers to switch from gas to electricity for space heating, water heating, and for cooking. Such losses in gas sales would not be energy-efficient. Unit gas base rate costs would increase due to lower gas sales levels and more diesel fuel on Catalina would be needed to meet increased electrical loads. This would result in Edison's absorbing greater losses or seeking further rate relief. If Edison experiences a significant loss of gas business due to lower electric rates, we will consider an Edison request for a surcharge on electric rates to discourage such transfers.

The revised ECAC and AER increases requested by Edison in A.60321 may be granted in full or in part. For comparison purposes columns 4 and 5 in the following tabulation assume that the increases will be granted in full. If a lesser increase is authorized, there will be reductions in the calculated billings in those columns. The following tabulation compares electric billing charges for a residential Catalina customer using 500 kWh per month with a lifeline allowance of 240 kWh and for a Catalina commercial customer with a 2,000 kWh monthly use, on the following bases: (a) at present rates (the initial rates authorized by D.91561); (b) at May 1, 1981 rates (at the step increase in base rates authorized by D.91561); (c) at the May 1, 1981 rates plus the requested increases in the CECABFs requested by Edison if no merger of Catalina rates with mainland rates occurred; and (d) at the May 1, 1981 base rates, plus a 2¢/kWh surcharge, plus the revised ECAC and AER rates requested in A.60321. The last column shows comparable mainland customer billing charges[6/] if the rates requested in A.60321 are authorized. The amounts shown in column 4, as modified by the decision in A.60321, will be authorized in this decision. These rates will go into effect as of the effective date of the rate filing in A.60321.

6/ Edison's Schedule GS-1 is comparable to the Catalina commercial schedule.

Class of Customer	Catalina Billings: Present Rates	Catalina Billings: May 1, 1981 Rates	Catalina Billings: May 1, 1981 Base Rates + CECABFs	Catalina Billings: May 1, 1981 Base Rates + 2¢/kWh Surcharge + Rev. A.60321 ECAC	Mainland Billings: At Rev. Mainland Rates in A.60321
			For 500 kWh With 240 kWh Lifeline Allowance		
Residential	$ 35.43	$ 43.24	$ 81.28	$ 52.64	$ 35.80
			Use of 2,000 kWh With Zero Lifeline Allowance		
Commercial	141.76	186.10	311.22	236.46	182.40

The impacts of the various options tabulated above are as follows for the Catalina residential customer with a monthly use of 500 kWh:

(a) Full integration with mainland rates would result in a rate increase of $0.37, or 1.0%, compared to present rates and a reduction of $7.44, or 17.2%, at the May 1, 1981 rates in effect as of the date of this order;

(b) Adoption of the requested CECABF rates would increase bills by $45.85, or 129.4%, compared to present rates and by $38.04, or 88.0%, compared to the May 1, 1981 rates; and

(c) Integration of Catalina's ECAC with the mainland ECAC (including AER) plus a 2¢/kWh amortization surcharge would increase bills by $17.21, or 48.6%, compared to present rates and by $9.40, or 21.7%, compared to May 1, 1981 rates.

The comparable impacts on a Catalina commercial customer with a monthly use of 2,000 kWh are:

(a) Full integration with mainland rates on Schedule GS-1 would increase the billing by $40.64, or 28.7%, compared to present rates and would decrease by $3.70, or 2.0%, compared to May 1, 1981 rates.

(b) Adoption of the requested CECABFs would increase bills by $169.46, or 119.5%, compared to present rates and by $125.12, or 67.2%, compared to May 1, 1981 rates; and

(c) Integration of Catalina's ECAC with the mainland ECAC (including AER) plus a 2¢/kWh amortization surcharge would increase bills by $94.70, or 66.8%, compared to present rates and by $50.36, or 27.1%, compared to May 1, 1981 rates.

The adopted procedure sends an appropriate economic signal for conservation in the face of sharply escalating energy costs (132.1% in 18 months) but without the severe impacts which could result from not modifying the existing Catalina ECAC formula.

In D.91561 the Commission explained the basis for keeping separate Catalina electric rates. That rationale needs to be modified but not to be eliminated. The adopted procedure achieves that aim.

Edison should be made whole for the fuel costs in its Catalina ECAC balancing account. The 2¢/kWh surcharge accomplishes that aim and keeps an appropriate differential between Catalina and mainland rates. Elimination of the surcharge from the adopted formula would drop the 500 kWh residential bill to $42.64 which is lower than the $43.24 billing based on the May 1, 1981 rates now in effect.

Authorization of the 2¢/kWh surcharge will increase Edison's Catalina electric revenues by $317,700 (26.1%) above present rates and by 21.4% above May 1, 1981 rates. Authorization of the full increase now requested in A.60321 and merger of Catalina's ECAC with the mainland ECAC will increase Edison's Catalina revenues by $82,300, or 6.8% above present rates and by 5.6% above May 1, 1981 rates.

Edison expressed concern on the regulatory costs associated with this proceeding. Edison's witness Meyers testified that she spent approximately one month in putting together the basic case in this application. Additional costs were incurred in review, printing, mailing, and legal costs. It appears unlikely that all of the Edison's costs related to this proceeding would total more than a fraction of 1% of its proposed increase.

The impact of incorporating $1 million in expenses now borne by Catalina's ratepayers on Edison's mainland customers is 0.0017¢/kWh based upon the 58,529,000,000 kWh sales figure adopted for test year 1981 in D.92549 dated December 30, 1980 in A.59531. A transfer of this magnitude would increase the monthly bill of a mainland customer using 500 kWh by only 0.85 cents.

Findings of Fact

1. Edison's principal business is to provide electric utility service in 15 counties in central and southern California to over three million customers.

2. Edison provides electric, gas, and water utility service on Catalina.

3. Edison is separately accounting for the costs of providing electric service on Catalina. That service is being provided through a separate, self-contained system.

4. Edison's electric tariffs for Catalina include an ECAC procedure to offset changes in its energy fuel costs.

5. Edison seeks a rate increase of $950,400 to offset increased fuel costs under its Catalina ECAC procedure.

6. Edison prefers to eliminate the electric rate differentials between Catalina and its mainland system by merging its Catalina electric operation into the larger mainland system for ratemaking purposes. It would also seek to amortize the amount in its Catalina electric balancing account from the transfer date.

7. Catalina electric rates are higher than Edison mainland rates. Rate differentials would be increased if the CECABFs requested by Edison were authorized.

8. Merger of the Catalina ECAC procedure with the mainland ECAC which may also provide for an AER and imposition of a 2¢/kWh surcharge would lessen the differential in rates between Catalina and the mainland. A 2¢/kWh surcharge on Edison's Catalina rates is justified to amortize the amount in its Catalina electric balancing account as of the date the CECABFs are eliminated.

9. The surcharge would increase Catalina's electric revenues by $317,700 (26.1%) above present rates and by 21.4% above May 1, 1981 rates. Authorization of the full increase now requested in A.60321 and merger of Catalina's ECAC with the mainland ECAC would increase Edison's Catalina revenues by $82,300, or 6.8% above present rates and by 5.6% above May 1, 1981 rates.

10. There would continue to be incentive for conservation on Catalina with the merger of the Catalina ECAC with the mainland ECAC and with the imposition of a surcharge as described above.

11. The impact of transferring $1 million in fuel expense now borne by Catalina's ratepayers to mainland ratepayers would be an increase of 0.0017¢/kWh, or approximately 1 cent for a consumption of 500 kWh.

12. The increases in rates and charges authorized by this decision are justified, and are just and reasonable.

Conclusions of Law

1. There is justification for merging Edison's mainland and Catalina ECAC procedures to avoid an exorbitant differential between mainland and Catalina rates.

2. There is no requirement for the reopening of prior proceedings, of this proceeding, or of the institution of an order of investigation to merge the ECAC procedures.

3. No other Catalina rate changes are justified at this time.

4. Edison should be authorized to merge its Catalina ECAC procedure with the mainland ECAC procedure, which may include an AER procedure, as set forth in the following order.

5. The following order should be effective the date of signature so it can be implemented when a decision is issued in A.60321.

ORDER

IT IS ORDERED that Southern California Edison Company (Edison) shall file, in compliance with General Order 96-A, a revised tariff preliminary statement extending the applicability of its mainland Energy Cost Adjustment Clause and Annual Energy Rate to service on Santa Catalina Island (Catalina) and eliminating the separately determined Catalina Energy Cost Adjustment Billing Factors (CECABFs). Edison shall also file a 2 cents per kilowatt-hour surcharge on all Catalina electric sales to amortize the amount in the Catalina

Energy Cost Adjustment Account, as described herein, on the last day the CECABFs remain in effect. The revised schedules shall become effective on the date that the rates authorized in the decision in Application 60321 become effective, and the revised schedules shall apply only to service rendered on and after that date.

This order is effective today.

Dated JUN 2 1981, at San Francisco, California.

President

Commissioners

Commissioner Priscilla C. Grew, being necessarily absent, did not participate in the disposition of this proceeding.