

ORIGINAL

Decision 93302 July 7, 1981

BEFORE THE PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

In the Matter of the Application)
of SOUTHERN CALIFORNIA EDISON)
COMPANY for authority to increase)
base rates for electric service)
to recover increased operating)
costs resulting from the conver-)
sion of monthly billing of)
customers previously billed)
bimonthly.)

Application 59863
(Filed August 6, 1980;
amended February 9, 1981)

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and Carol Henningson, by Richard K. Durant,
Attorney at Law, for Southern California Edison
Company, applicant.
Glen J. Sullivan, Attorney at Law, for California
Farm Bureau Federation, interested party.
Timothy E. Treacy, Attorney at Law, and A. V. Garde,
for the Commission staff.

O P I N I O N

Edison's Request

Southern California Edison Company (Edison) filed the original application on August 6, 1980, requesting an increase in rates having an annual revenue effect of almost \$6.3 million. The requested increase would offset the additional revenue requirement that Edison alleged to be associated with the conversion to monthly billing of customers formerly billed on a bimonthly basis.^{1/}

^{1/} Edison has historically billed most residential, lighting and small power, and agricultural and pumping customers on a bimonthly basis. Exhibit 1 indicates that about 87% of its total customers were so billed as of year-end 1979. Edison made the conversion in accordance with Rule 9 of its tariffs, which provides that bills may be rendered bimonthly, monthly, weekly, or as otherwise provided in the tariff schedules.

The requested amount represents the net effect on revenue requirement of the related increase in operating expenses and the decrease in working cash allowance includable in rate base. Edison requested that the increase be made effective January 1, 1981 or concurrently with the Commission's decision in Application (A.) 59351, the general rate case, which was pending at the time the application was filed.

Edison filed an amendment on February 9, 1981, updating the application to reflect: (1) effects of the cost of service adopted in Decision (D.) 92549, dated December 30, 1980, in Edison's 1981 general rate case, A.59351^{2/}; increased postage costs which became effective in March 1981; and (2) updated estimates of labor expenses. The amended application reduces the amount requested to about \$6.2 million.

Edison proposes to allocate the requested \$6.2 million increase according to the weighted number of customers in each of the groups affected by the billing conversion. Under Edison's proposal, the increased revenue requirement within each such customer group would be recovered by increasing rates on a cents per kilowatthour basis.

^{2/} Edison did not include the additional revenue requirement for monthly billing in A.59351, nor did the Commission include any part of it in D.92549. Edison states that it did not include the costs of conversion in A.59351 because it did not anticipate the change at the time that application was prepared.

Public Hearings

Public hearings were held in Los Angeles on February 24 and 25, 1981, before Administrative Law Judge James F. Haley. The only appearance entered, besides Edison and the Commission staff, was that of the California Farm Bureau Federation (Farm Bureau). The matter was taken under submission upon the receipt of concurrent briefs and late-filed Exhibits 11 and 11A, the latter of which was filed with the Commission on April 20, 1981.

Staff Position

The staff opposes the granting of the application and recommends that it be denied based upon the following allegations:

- "1. The requested relief for an increase in base rates is not in conformity with the Commission's Regulatory Lag Plan. Edison's latest test year is 1981; the next will be 1983.
- "2. The amount of the requested relief is de minimus representing an increase of less than 1/5 of 1% of 1981 revenues adopted in Decision No. 92549. (See Amended Application No. 59863, p. 1.)
- "3. Said Decision No. 92549 provided operational attrition for Edison for year 1982 in addition to the increases authorized for test year 1981.
- "4. The Commission has most recently held that it will not grant rate relief in addition to such attrition relief noted above 'absent a true emergency situation.' (PG&E, D.92656, A.59902, February 4, 1981, sheet 34.) No such emergency is alleged or demonstrated herein."

The staff takes the position that, should the Commission grant the offset increase, Edison's proposed form of rate design be adopted. However, the staff recommends that any increase be limited to \$4.67 million, based upon its determination of the costs associated with conversion to monthly billing.

Position of the Farm Bureau

Farm Bureau states that it has no objection to monthly rather than bimonthly billing. Farm Bureau reasons that, if the benefits exceed the costs, monthly billing would be worthwhile; that, if the costs exceed the benefits it would not be worthwhile. From Farm Bureau's point of view, however, the benefits do not exceed the costs. It recommends that the Commission deny the application based upon its allegation that the costs were imprudently incurred.

Farm Bureau points out that Edison undertook the conversion in 1980 without the prior approval of the Commission or its staff and that, although the changes were permitted by the tariffs, Edison did so at its own risk. Farm Bureau states that the Commission should not hesitate to deny the recovery of imprudent costs simply because they have, in fact, been incurred.

The Issues

The issues raised during the course of the proceeding include the following:

1. Were the costs of conversion prudently incurred, i.e., do the benefits exceed the costs?
2. Do the costs of Edison's conversion to monthly billing constitute a proper basis for an offset type of rate proceeding?
3. What is the increase in revenue requirements associated with Edison's conversion to monthly billing?
4. Is Edison's proposed method of recovery of the increased revenues reasonable?
5. Should the results of a joint meter reading study conducted for Edison and Southern California Gas Company be considered in this proceeding?

Issue 2 is the ultimate issue in this proceeding. Our findings are, infra, that the costs of Edison's conversion to monthly billing constitute a proper basis for offset-type rate relief.

Have the Costs Prudently Been Incurred?

Edison states that the primary benefit in converting to monthly billing is the promotion of energy conservation by enabling customers to be more responsive to changes in their energy-use patterns. Edison believes that such an increase in customer responsiveness will materially aid the advancement of conservation objectives. The utility's witness testified that Edison had not quantified the additional conservation which would be achieved by monthly billing. Although Edison could provide no estimate of the conservation cost-effectiveness, the record does show that monthly billing will provide the customer with better signals for guiding him in his energy conservation efforts.

The testimony also shows that monthly billing will be of real assistance to the residential customer in budgeting his expenses somewhat better than was possible with bimonthly billing. This benefit, by its nature, does not lend itself to a quantitative evaluation.

Another benefit of monthly billing is the improvement in Edison's cash flow compared to bimonthly billing. The improved cash flow reduces the working cash allowance element of rate base, thereby reducing the revenue requirement. This reduction is, of course, more than offset by the additional costs of monthly billing.

The record provides us with firm data for determining the costs of conversion to monthly billing. Unfortunately, the record does not quantify the value of the benefits of conversion, nor does it appear that such a dollars-and-cents evaluation is possible. We are, nevertheless, convinced on a mainly subjective basis that the value of the benefits of Edison's conversion to monthly billing exceeds the costs. We are of the opinion, therefore, that Edison's management did not act imprudently in making the conversion.

Is Offset Rate Relief Appropriate?

While conceding that the Regulatory Lag Plan spells out that the Commission will entertain general rate cases at intervals of no less than two years, Edison points out that the plan does not preclude the granting of interim offset rate relief. Edison reminds the Commission that it has, in fact, considered and approved a number of offset rate adjustments to cover specific increased costs, such as energy costs and the costs of conservation and load management.

In its brief, Edison alleges that it had "the blessings of the Commission and its staff" in undertaking the conversion and argues that "it would be a clear injustice if offset rate relief were denied on the basis of some procedural technicality based on a Commission policy never intended to apply." Edison states that "The decision to convert to monthly billing was made long after the Company's general rate application for test year 1981 was filed, and therefore, could not have possibly been reflected in the application making it even more of an injustice if such relief is denied."

The testimony indicates that conversion to monthly billing had been under consideration by Edison for some time. The company decided at the beginning of 1980 that it was an appropriate time to undertake the conversion, which was begun in March and was completed by the end of that year. Edison filed its general rate application for test year 1981 (A.59351) on December 26, 1979. It would be purely speculative to assume that Edison's management could have included the increased costs in its test year 1981 results of operation. In any event upon the filing of this application, Edison requested that a decision in this matter be made effective on January 1, 1981 or concurrently with the decision in the pending general rate case. Having failed to grant this request, we now discuss the granting of the request as a special offset.

Whether or not Edison correctly interpreted the Commission's reaction to the conversion proposal is not germane to the issues at hand, since Edison's tariff provision allows the conversion without prior Commission approval. However, in presenting the conversion plan to the Commission staff, the record fails to show that Edison received any assurance from the Commission or staff that the additional costs associated with the change would be approved. Nor would such prior approval by the staff be binding upon the Commission, had it been given.

Edison points out, correctly, the lack of any specific language in the Regulatory Lag Plan which would preclude the granting of offset rate relief. Edison goes on to recite cases outside the Regulatory Lag Plan where offset relief has been granted by the Commission, namely, conservation and load management activities.

Under the Regulatory Lag Plan, utilities may seek general rate increases no more often than every two years. The provided exception to this rule is a "financial emergency because of sudden, significant and unforeseen change in operating conditions."

Edison contends that the conversion program and its effects, including increased costs, were not foreseeable when A.59351 for general rate relief was under preparation. Edison concedes that this request is not the result of a financial emergency. Thus, the request must be addressed from the standpoint of a new activity valuable to conservation and warranting offset-type rate relief.

The Commission in establishing new conservation programs and granting rate relief for these activities in prior decisions imposed these new programs upon utilities already operating under a monthly billing procedure, with the exception of Edison. Obviously, the Commission deemed these conservation programs so vital that special rate relief was granted. Saving energy being the goal of conservation, the ability to monitor usage and savings becomes crucial to achieving conservation goals. The evidence in this proceeding shows that monthly billing provides better guidance than bimonthly billing toward conservation goals. Thus, the monthly bill becomes the cornerstone of any and all conservation effort. Its value to all conservation effort is priceless, yet in itself not quantifiable in dollars and cents, as the evidence in this proceeding also shows. Given the importance of usage documentation and the preference of such documentation on a monthly basis, the conversion to monthly billing is as important a step toward conservation as the specific conservation program itself. We, accordingly, agree that an offset for requested expenses should be granted under the unusual circumstances of this application and due to the value to conservation goals of this new billing procedure.

What Are Revenue Requirements and Proper Method of Recovery?

There are serious questions whether some of the costs which Edison has included in its request are proper.

Edison included \$436,000 to recoup an anticipated March 1981 postage rate increase from 15 to 20 cents for first class mail and from 13 to 17 cents for presorted. Consistent with the Commission policy, the staff in its estimates based postage expenses on existing rates since an increase had not yet been put into effect. However, in a late filed exhibit, the staff revised the postage allowance to reflect an increase in postage rates to 18 cents for first class and 15 cents for presorted mail effective March 22, 1981. Accordingly, we will allow postage expenses based on the current increased rate.

Included by Edison in the costs sought to be offset is the amount of \$300,000, representing a claimed clearing account reallocation. The staff contends, and we agree, that such a reallocation is not a proper basis for offset rate relief because Edison's overhead and clearing account transactions were properly accommodated in A.59351.

About a fourth of the costs sought to be offset represent a reallocation of short-term interest from below the line to above the line. Since Edison borrows money without reference to whether the funds are applied to operable (rate base) plant or nonoperable (nonrate base) items, some allocation of interest expense between rate base and nonrate base plant must be made; otherwise, the utility would be disproportionately compensated for interest costs associated with nonoperable items on which it is also accruing and capitalizing interest. Unlike long-term debt, short-term debt costs are not included in capital recovery, nor are they included in operating expenses. In the allocation process, they are identified with nonoperable plant items.

In its showing, Edison has improperly reallocated a portion of its short-term interest expense in a manner which increases income tax expenses. This results in the revenue requirement being overstated by \$1,600,000. Edison was unable to demonstrate that any of its short-term debt costs are includable in recoverable operating expenses or capital costs.

Finally, we adopt the staff recommendation that Edison's method of recovery be approved.

Joint Meter Reading Study

Edison proposes that the joint meter reading study be abandoned. However, we agree with the staff that ratepayers of both Edison and Southern California Gas Company may benefit from the reduction in operating expenses of meter reading personnel under a joint program.

Findings of Fact

1. Conversion to monthly billing will promote energy conservation.
2. Monthly billing will assist customers in budgeting their expenses.
3. Edison's management did not act imprudently in converting from bimonthly to monthly billing.
4. Edison acted in accordance with its filed tariffs in converting from bimonthly to monthly billing.
5. The March 1981 postage rate increase shall be taken into consideration in allocating relief.
6. The costs Edison developed by clearing account reallocation are not a proper basis for offset rate relief.
7. Edison improperly reallocated a portion of its short-term interest expense. The \$1.6 million increase in revenue requirement developed by Edison is not a proper basis for offset rate relief.

8. Edison failed to include the costs of conversion in its last general rate increase application.

9. Edison has made no showing of financial emergency.

10. The costs of Edison's conversion to monthly billing constitute a proper basis for an offset-type rate proceeding.

11. Edison should provide a written response to the Commission regarding its conclusions, with appropriate justification, on joint meter reading with Southern California Gas Company.

Conclusion of Law

Edison's request for rate relief to offset \$4.67 million in costs for conversion from bimonthly to monthly billing should be granted.

O R D E R

IT IS ORDERED that:

1. The application is granted to the extent of a \$4.67 million rate adjustment.

2. The Southern California Edison Company (Edison's) may file revised tariffs for electric service, to be effective on the effective date of this order, which reflect the following increases:

- a. A \$.00016 per kWh increase to base rates for residential, agricultural and commercial customer classes (Schedules D, OL-1, GS-1, TC-1, PA-1 and TOU PA-1).
- b. Rates per lamp in Schedule OL-1 may be increased by an amount consistent and commensurate with the rate increases for these schedules listed above.

Edison's tariff filing shall conform to the requirements of General Order 96-A.

3. Edison shall file a written report with the Commission, on or before 120 days from the effective date of this order, regarding its

conclusions on joint meter reading with Southern California Gas Company. The report should contain justification of Edison's position.

This order becomes effective 30 days from today.

Dated JUL 7 1981, at San Francisco, California.

John E. Byron
President

Lawrence J. ...

Victor ...

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Commissioners

Commissioner Richard D. Gravelle, being necessarily absent, did not participate in the disposition of this proceeding.