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Decision 97-12-066 December 16, 1997

BEFORE THE PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

In the Matter Of The Application Of The Southern California Edison Company (U 338-E) For: (1) Authority to Revise Its Energy Cost Adjustment Billing Factor, Its Electric Revenue Adjustment Billing Factor, Its California Alternate Rates For Energy, And Its Base Rate Levels Effective January 1, 1997; (2) Authority To Revise The Incremental Energy Rate, The Energy Reliability Index And Avoided Capacity Cost Pricing; And (3) Review Of The Reasonableness of Edison's Operations During the Period From April 1, 1995 Through March 31, 1996.	ORIGINAL Application 96-05-045 (Filed May 30, 1996)

(See Decision (D.) 96-12-051 for list of appearances.)

INTERIM OPINION

Summary

The Commission concludes that Southern California Edison Company (Edison) should set its Energy Cost Adjustment Billing Factors (ECABFs) residually for rates in effect for 1997.

Procedural Summary

Evidentiary hearing on this issue was held on July 9, 1997. Opening briefs and reply briefs were filed by Edison and the Office of Ratepayer Advocates (ORA) on July 31 and August 12, 1997, respectively.

Background

Historically, the Energy Cost Adjustment Clause (ECAC) revenue requirement component, which is recovered through the ECABFs, has been based on an adopted forecast of fuel and purchased power energy expenses, purchased power capacity expenses, carrying costs associated with fuel inventories, and nuclear unit megawatt-hour production levels. Such forecasts were adopted to help ensure that total rate levels more closely approximate forecasted costs. Actual recovery of fuel and purchased power costs, however, is solely based on recorded costs that the Commission finds were reasonably incurred. Once the ECAC revenue requirement component was established, the Commission adopted a consolidated revenue requirement which reflected both the ECAC revenue requirement and the revenue requirements authorized in other proceedings. This consolidated revenue requirement was used to set the total rate levels used to bill customers. The different components of this consolidated revenue requirement, other than the ECAC revenue requirement component, were then used to establish the corresponding rate components (i.e., base rates, CARES, ERABF and PUCRF).[1] These rate components were then subtracted from the total rate levels in order to determine the ECABFs.

Since the total rate levels are frozen in 1997, there now is no need to establish an ECAC revenue requirement for 1997 based on an adopted forecast of fuel and purchased power energy expenses. Nevertheless, one of the rate components has to be set residually to offset the changes to the base rate components mandated by Edison's Performance Based Ratemaking Decision (PBR) Decision (D.) 96-09-092 to ensure that total rate levels do not change from their June 10, 1996 levels as required by Assembly Bill (AB) 1890.

The Issue

For 1997, Edison proposes to set the ECABFs residually. According to Edison, this would ensure that total rate levels do not change from the levels in effect on June 10, 1996 as required by Section 368(a) of the Public Utilities (PU) Code enacted by AB 1890. ORA, however, believes that the ECABFs should remain at the levels authorized for 1996 in Edison's Electric Revenue Adjustment Mechanism (ERAM)

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[1] CARES is the acronym for California Alternate Rates for Energy Surcharge. ERABF is the acronym for Electric Revenue Adjustment Billing Factor. PUCRF is the acronym for Public Utilities Commission Reimbursement Fee.

Decision (D.96-04-050) and that a new rate component, an Interim Transition Cost Balancing Account (ITCBA) rate component, should be established and set residually to reflect the difference between the frozen total rate levels and the sum of all other rate components.

Position of Edison

Edison argues that setting the ECABFs residually and transferring the year-end 1997 balance in the ECAC Balancing Account to the ITCBA is the simplest and most preferable method of maintaining rates at their June 10, 1996 levels and complying with the Cost Recovery Plan decision (D.96-12-077). According to Edison, it is the simplest method because rates would not have to be changed and a new rate component would not need to be implemented. And, it is the preferable method because it is the only method by which the rate freeze can be maintained and the Cost Recovery Plan decision properly implemented.

Further, Edison argues that since total rate levels are frozen in 1997, and there is no need to establish an ECAC revenue requirement, one of the rate components has to be set residually to offset the changes to the base rate components mandated by the PBR Decision (D.96-09-092). According to Edison, this would ensure that rates do not change from their June 10, 1996 levels. Therefore, Edison contends that the ECABF is the logical rate component to accomplish this because: (1) it has historically been set residually after total rate levels have been established; (2) its revenues are automatically reflected in the ECAC Balancing Account; and (3) any over- or undercollection in the ECAC Balancing Account at the end of the year will be transferred to the ITCBA and applied toward recovery of transition costs as required by the Cost Recovery Plan decision (D.96-12-077, p. 18).

Position of ORA

ORA proposes that a new ITCBA rate component be established residually to directly implement extra revenues being credited to recovery of transition costs. ORA recommends that: (1) ECABFs be set at the (1996) level authorized pursuant to D.96-04-050; (2) an ITCBA rate component be established, and set equal to the difference between frozen rate levels and the sum of all other rate components; (3) the entry in the ECABF revenue tracking account be transferred to the ITCBA; and, (4) the ECABF revenue tracking account then be terminated.

ORA disputes Edison's contention that the ECABFs need to be set residually in 1997 to meet the total rate level constraint of AB 1890. ORA believes maintaining ECABFs at 1996 levels is more consistent with the Cost Recovery Plan decision than Edison's residual ECABF approach, and also meets the AB 1890 total rate level constraint.

ORA objects to Edison's proposal to use the ECAC Balancing Account as the mechanism to accomplish the credit to be applied to the ITCBA. ORA contends that in contrast, establishment of an ITCBA rate component directly links recovery of the residual amount and transition costs.

ORA agrees with Edison to the extent that the Cost Recovery decision provides for credit of excess 1997 revenues to the ITCBA. However, ORA disagrees with Edison about the definition of what constitutes "excess revenues."

For ORA, the critical sentence from D.96-12-077 is "For 1997, authorized ECAC revenues will continue to be a part of the authorized revenue requirement" (p. 17). ORA argues that when the level of ECABFs increased at the end of 1996, the authorized ECAC revenues did not. Hence, there is a mismatch between the level of ECABFs and authorized ECAC revenues. Some unspecified portion of ECAC consists of transition costs. In contrast, the increase of ECABFs that occurred at the end of 1996 should consist entirely of transition costs. ORA contends that given that the Commission has provided for the ITCBA to hold credits toward transition cost recovery, it is simple common sense to provide for a "direct" credit of specified transition cost revenue.

ORA argues that prompt crediting of transition costs to a transition cost account is a worthy goal because recovery of an ECAC undercollection is uncertain and an immediate ITCBA credit is less risky than an eventual (year-end) credit. According to ORA, a revenue credit to the ITCBA can be accomplished without a rate component. It would be accomplished at the accounting level. The revenue tracking account would be maintained, and the balance transferred monthly to the ITCBA (or more frequently).

Further, ORA argues that the Commission has already considered how to achieve a credit to transition cost recovery in the Cost Recovery Plan decision (D.96-12-077); at p. 13 of the decision, the Commission discusses the ITCBA and explains that headroom revenue should be credited to the ITCBA; and, at p. 14, the Commission defines headroom as the difference between recovered revenues at the frozen rate levels and revenue requirement. Therefore, ORA contends that any headroom created as a consequence of retaining currently tariffed (1996) ECABFs should be credited to the ITCBA.

ORA argues that the process of identifying transition costs is going on right now. As revenue becomes available for transition cost recovery – in other words, if revenue bears no relationship to determining ongoing revenue requirement – that revenue should be credited to transition cost recovery. According to ORA, transition costs are not merely in ECAC. Transition costs are everywhere, but in an unknown amount – in base rates and in ECAC rates. Transition revenues are in only one place, the increase in ECABFs, in a known amount. ORA submits that the fact that the Commission does not know everything about transition costs and revenues should not dissuade the Commission from acting on that which it does know.

Response of Edison to ORA's Proposal

Edison contends that there are four significant problems with ORA's approach to maintain the ECABFs adopted for 1996 and establish a new rate component for the ITCBA: (1) it relies on the establishment of a new rate component which is extremely difficult, costly, and unnecessary, especially when that rate component will only be in place for the remaining months in 1997; (2) if there is an overcollection in the ECAC Balancing Account, ORA's approach would yield the same end result as Edison's proposal to set the ECABFs residually, but in a more complicated manner; (3) if there is undercollection in the ECAC Balancing Account, ORA's approach would result in Edison not having the opportunity to recover its ECAC costs, which violates the Cost Recovery Plan decision; and (4) ORA's approach would change the currently-tariffed ECABFs back to the levels adopted for 1996 which are not representative of Edison's

1997 fuel and purchased power costs and would exacerbate the currently forecasted undercollection in the ECAC Balancing Account.

Further, Edison states that the ECABFs serve as the rate components to collect revenues that go towards the recovery of fuel and purchased power costs. The over- or undercollection in the ECAC Balancing Account at the end of 1997 will adjust the revenues available for recovery of transition costs in the same manner as the overcollection in the ECAC Balancing Account on December 31, 1996 will be credited toward transition cost recovery. Edison will not have separate energy and transition cost components in 1997. However, according to Edison, energy costs and any revenues in excess of energy costs available for transition cost recovery can accurately be tracked through the operation of the ECAC Balancing Account in 1997.

Edison disputes ORA's contention that its approach is preferable because it "directly links recovery of the residual amount and transition costs." Edison points out that transition costs are being recorded in the ECAC Balancing Account. According to Edison, ORA's approach separates transition costs and revenues into two accounts (i.e., costs remain in the ECAC Balancing Account and revenues would be credited to the proposed ITCBA), thus removing any direct links.

Edison argues that ORA confuses the distinction between an authorized revenue requirement and recovery of actual costs. Edison takes exception to ORA's contention that "the Commission defines headroom as the difference between recovered revenues at the frozen rate levels and revenue requirement." Edison points out that the Commission has defined headroom revenues as:

> "The difference between recovered revenues at the frozen rate levels (including the reduced rate levels for residential and small commercial customers beginning in 1998) and the reasonable costs of providing utility services, which for convenience we refer to as the authorized revenue requirement." (D.96-12-077, p. 14.)

Discussion

We do not find ORA's argument persuasive. The result of ORA's recommendation is to preclude Edison from recovering any undercollection in its

ECAC Balancing Account for 1997. Essentially, the basis for ORA's argument appears to be that the Cost Recovery Plan decision provides only for credits to the ITCBA. We disagree.

Also, 1996 ECABFs are not representative of 1997 costs, and, if the Commission were to adopt ORA's recommendation, that mismatch would further restrict Edison's ability to recover any undercollection in the ECAC Balancing Account.

ORA ignores the fact that ECAC costs for 1997 are pass-through costs that are subject to a reasonableness review and not limited by an adopted revenue requirement. To the extent that Edison's recorded ECAC costs do not equal the revenues recovered for those costs, the difference has historically either been collected from ratepayers or returned to ratepayers, depending on whether the actual recorded ECAC costs were higher or lower than ECAC revenues. Historically, the ECAC revenue requirement has been adopted to merely help ensure that total rate levels, and more particularly the ECABFs, more closely approximate forecasted costs. AB 1890 does not require a change in 1997.

The Commission's Cost Recovery Plan Decision states:

> "For 1997, authorized ECAC revenues will continue to be a part of the authorized revenue requirement. The balancing function of ECAC will operate somewhat differently as a result of the rate freeze. If ECAC costs are higher than forecasted, then authorized revenues will be insufficient to cover these costs, and the resulting 'undercollection' will eventually result in a higher authorized revenue requirement (assuming the costs are reasonable and subject to the rate freeze). Since rates may not rise to amortize the undercollection, however, <u>the effect is to reduce the headroom revenues available for crediting to the interim TCBA</u>. Similarly, if ECAC costs are lower than forecasted, a larger headroom and greater credit to the interim TCBA will result." (D.96-12-077, pp. 17-18, emphasis added.)

The words "reduce the headroom" means that the Commission intended for any undercollection in the ECAC Balancing Account for 1997 to be reflected in the ITCBA. The Commission has, thus, already decided that Edison would be given the opportunity, subject to the constraints of the rate freeze, to recover any costs that caused an undercollection in the ECAC Balancing Account, assuming those costs were found to be reasonable.

As of May 30, 1997, Edison's ECAC costs exceed the revenues collected through the residually set ECABFs to cover those costs by $272 million, translating into a $272 million undercollection in the ECAC Balancing Account.

As Edison explained, one reason for this large difference in the potential undercollection is the Commission's adoption of an Incremental Cost Incentive Pricing (ICIP) procedure for Edison's San Onofre Nuclear Generating Station (SONGS) Units No. 2 and 3 (D.96-04-059). Pursuant to this special incentive mechanism, beginning April 15, 1996, nuclear fuel, operation and maintenance, and administrative and general expenses associated with SONGS are now recovered through the ECABFs. With the exception of nuclear fuel expenses, these expenses were previously recovered in the base rate components and, thus, were not reflected in the ECABFs adopted for 1996. The Commission has also authorized Edison, beginning January 1, 1997, to recover nuclear fuel, operation and maintenance, and administrative and general expenses associated with the Palo Verde Nuclear Generating Station through the ECABFs, creating a similar problem (D.96-12-083). These significant changes for 1997 are not covered by the 1996 ECABFs.

In summary, we do not adopt ORA's recommendation that a new ITCBA rate component be established. Also, we do not adopt ORA's position that Edison should be allowed to transfer an overcollection only but not allowed to transfer an undercollection in the 1997 ECAC Balancing Account to the ITCBA and recover those costs that exceed the revenues recovered through the ECABFs. We find no reason to change from the established procedure of setting ECABFs residually. With the ECABFs set residually, all ECABF revenue will be recorded in the ECAC Balancing Account and will remain in the ECAC Balancing Account until December 31, 1997 when the entire end-of-year balance (overcollection or undercollection) will transferred to the ITCBA, or directly to the Transition Cost Balancing Account addressed in Application 96-08-011 et al., if it is established by then, subject to reasonableness review. Also, Edison should separately identify "energy-related" costs.

Lastly, the Energy Division sent a letter to Edison dated December 23, 1996 requesting that the revenue difference between the 1996 ECABFs adopted in D.96-050-050 and the residually established ECABFs for 1997 be recorded, pending a determination in this proceeding. Since the Commission is still in the process of identifying transition costs, Edison should continue to track this difference.

Section 311 Comments

The Administrative Law Judge's proposed decision on this matter was filed with the Commission's Docket Office and mailed to the parties on November 21, 1997. As provided for in § 311(d), the parties agreed to a shorter comment period (Rule 77.2) and waived the 30-day requirement between issuance of the proposed decision and the Commission's decision. Opening comments were filed by Edison and ORA on December 5, 1997. Reply comments were filed by Edison on December 12, 1997. We have carefully considered the comments and conclude that no changes to the proposed decision are necessary.

Findings of Fact

1. The ECABFs should be established residually for rates in effect during 1997 in order to maintain total rate levels at their June 10, 1996 levels pursuant to Section 368(a) of the PU Code.

2. The tracking account established pursuant to the Energy Division's December 23, 1996 letter to Edison which records the difference between the 1996 ECABFs adopted in D.96-05-050 and the residually established 1997 ECABFs, should be continued, since the Commission is in the process of identifying transition costs. Also, Edison should separately identify energy-related costs.

Conclusions of Law

1. Setting the ECABFs residually for rates in effect during 1997 is a reasonable method of maintaining the total rate levels at their June 10, 1996 levels pursuant to Section 368(a) of the PU Code and is adopted for 1997.

2. Edison should continue to maintain the tracking account established pursuant to the Energy Division's December 23, 1996 letter to Edison to record the difference

between the ECABFs adopted in D.96-05-050 and the residually established ECABFs through 1997.

INTERIM ORDER

IT IS ORDERED that:

1. Southern California Edison Company (Edison) shall set its Energy Cost Adjustment Billing Factors (ECABFs) residually for rates in effect during 1997. With the ECABFs set residually, all ECABFs revenue shall be recorded in Energy Cost Adjustment Clause (ECAC) Balancing Account and will remain in the ECAC Balancing Account until December 31, 1997 when the entire end-of-year balance (overcollection or undercollection) will be transferred to the Interim Transition Cost Balancing Account, or to its successor, the Transition Cost Balancing Account addressed in Application 96-08-001 et al., if it is established by then.

2. Edison shall continue to maintain the tracking account established pursuant to the Energy Division's letter dated December 23, 1996 to record the difference between the ECABFs adopted in Decision 96-05-050 and the residually established ECABFs through 1997. Also, Edison shall separately identify energy-related costs through 1997.

3. This proceeding remains open for hearings in the Reasonableness Phase of Edison's operations.

This order is effective today.

Dated December 16, 1997, at San Francisco, California.

P. GREGORY CONLON
President
JESSIE J. KNIGHT, JR.
HENRY M. DUQUE
JOSIAH L. NEEPER
RICHARD A. BILAS
Commissioners