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PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

EVALUATION AND COMPLIANCE DIVISION
Energy Branch

RESOLUTION E-3006
August 18, 1986

RESOLUTION

ORDER AUTHORIZING SOUTHERN CALIFORNIA EDISON COMPANY (SCE) TO IMPLEMENT AN AGREEMENT WITH SUGARLOAF MOUNTAIN RANCH COMPANY PROVIDING FOR THE EXTENSION OF ELECTRIC SERVICE TO A RESIDENTIAL ELECTRIC LOAD IN TEHACHAPI, CALIFORNIA

By Advice Letter 737-E, filed July 10, 1986, Southern California Edison Company (SCE), requests authorization to implement an Agreement dated April 4, 1986, with Sugarloaf Mountain Ranch Company (Applicant) providing for the extension of electric service to residential electric load in Tehachapi, California, located in the County of Kern. The facts are as follows:

1. The Agreement as listed below deviates from SCE's filed tariffs to include an advance payment by Applicant of the total cost of the facilities and the provisions for refunds based on five times the estimated annual base revenues from load to be connected to the facilities and by the payment of a lump sum amount to create a fund covering SCE's cost-of-ownership as follows:

Total Cost of Extension	Lump Sum Payment to Cover Cost-of-Ownership	Total Payment By Applicant
$16,182.00	$7,783.00	$23,965.00

2. The cost-of-ownership is based on the present worth value of the monthly cost-of-ownership charge for a period of ten years using an annual rate of 12.39 percent which was SCE's authorized rate of return when the Agreement was negotiated.

3. SCE will refund to Applicant in accordance with Paragraph No. Four of the Agreement, an amount equal to five times the estimated annual base rate revenue for up to ten years from the date SCE is ready to render service from the extension.

4. Inasmuch as there is only minimal estimated annual base rate revenue from this extension, SCE believes the above provisions are just and nondiscriminatory. They enable the line extension to be installed under conditions acceptable to the Applicant and prevent the installation from being a burden on SCE's other ratepayers.

5. This request by SCE is similar to those of previous line extension advice letter filings that have been approved by this Commission.

6. This filing has been reviewed by the Staff of the Service and Safety and the Energy Branches of the Evaluation and Compliance Division. The Staff recommends authorization and the filing is presented herewith to the Commission for its approval.

7. We find that this Agreement is just and reasonable, has been reached by mutual consent of both parties, is consistent with established criteria, and enables the Applicant to obtain needed serivce under conditions which are acceptable and which prevent the cost of such service from becoming a burden on other ratepayers.

THEREFORE:

1. Southern California Edison Company is authorized by Sections 454 and 532 of the Public Utilities Code and by Section X.A. of General Order 96-A to place the above Agreement into effect today.

2. Advice Letter No. 737-E and the accompanyng Agreement shall be marked to show that they were approved for filing by Commission Resolution E-3005. This Resolution is effective today.

I certify that this Resolution was adopted by the Public Utilities Commission at its regular meeting on August 18, 1986. The following Commissioners approved it:

Victor Weisser

Executive Director

DONALD VIAL
President
VICTOR CALVO
PRISCILLA C. GREW
FREDERICK R. DUDA
STANLEY W. HULETT
Commissioners

PUBLIC UTILITIES COMMISSION
EVALUATION AND COMPLIANCE DIVISION

WORKSHOP ON EXCESS FUEL DISPOSITION
Decision 85-12-063 (Application 84-07-027), December 4, 1985
March 20, 1986

ATTENDING

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WORKSHOP ON EXCESS FUEL DISPOSITION
Decision 85-12-063 (Application 84-07-027), December 4, 1985
March 20, 1986

ATTENDING

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CPUC = California Public Utilities Commission
TURN = Toward Utility Rate Normalization
SDG&E = San Diego Gas and Electric Company
SCE = Southern California Edison company
PG&E = Pacific Gas and Electric Company
SPPCO = Sierra Pacific Power Company

PUBLIC UTILITIES COMMISSION
EVALUATION AND COMPLIANCE DIVISION

WORKSHOP ON EXCESS FUEL DISPOSITION

Decision 85-12-063 (Application 84-07-027)

Brief Summary of the Conclusions Reached in the Workshop by the Participants

Public Staff Division Position

The Public Staff Division (PSD) proposal on the subject is set forth in the position paper authored by Ray Czahar of the Special Economic Branch dated May 9, 1986. The position paper also outlines how to write down the fuel inventory at the market level.

The three key elements of the proposal are:

(1) Discontinue balancing account treatment for the Commission adopted fuel oil volume level.

(2) Phase-in of changes in adopted fuel oil inventory levels during subsequent Energy Cost Adjustment Clause periods.

(3) Periodic adjustment of the adopted fuel oil inventory to the current market price of similar fuels.

The PSD proposal is currently advocated in formal proceedings in Application 86-04-012 as Exhibit No. 143. Southern California Edison Company and San Diego Gas and Electric have intervened in the above proceeding.

Participating Utilities Position

The utilities suggested that the proper methodology for evaluating the economics of disposal of excess inventory must compare the cost of holding the excess versus selling.

The utilities contended that the proper formula for determining the most economic alternative for disposition of excess oil in inventory is as follows; Compare the present values of Holding Costs Versus Cost to Purchase Less Net Receipts From Disposal.

This net present value of revenue requirements analysis compares the cost to replace the oil later less the net receipts from disposal of the excess, with the cost of carrying the oil in inventory until it would have otherwise been needed, all on a present value basis. Application of the formula requires estimates of (a) the date the excess oil will have to be replaced; (b) the price of the replacement oil; (c) the discount rate; (d) the price the oil can be sold at; and (e) the true economic cost of holding the oil in inventory.

The utilities believe that the preferred disposal alternative should show the lowest overall cost on a present value basis, even though the time horizon extends beyond a given ECAC forecast period.

The utilities contend that the proper basis for decisions on the disposal of excess oil is an economic analysis based on the true costs to the utility and its customers, and should not be confused with Commission ratemaking practices for allocating costs between base rates and ECAC and between ratepayers and shareholders.

The utilities believe that ratemaking applied to the utilities disposal of excess inventory should track the utilities' actual costs. The utilities should not be penalized for making the proper economic decision in disposing of excess oil, including the situation where the Commission adopts a lower inventory level due to the availability of lower-cost energy resources which reduce customer costs.

The utilities claimed that Commission's current ratemaking practices for allocating losses on the disposal of excess inventory to shareholders and ratepayers sends contradictory signals to the utilities and may force them to choose between alternatives which penalize either customers or shareholders.

Overall Consensus Position

The methods of determining inventory requirements (and excess inventory) and the criteria for defining the optimal inventory level are utility-specific and more appropriately reserved for the individual utility ECAC proceedings.