

PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

COMMISSION ADVISORY AND
COMPLIANCE DIVISION
Energy Branch

RESOLUTION E-3431
November 21, 1995

R E S O L U T I O N

RESOLUTION E-3431. SOUTHERN CALIFORNIA EDISON COMPANY'S PROVISION OF INFORMATION AND RECOMMENDATIONS REGARDING SERVICE PROVIDED UNDER RATE A (NATURAL GAS ALTERNATIVE) OF SCHEDULE TOU-PA-6, AGRICULTURAL WATER PUMPING - LARGE ALTERNATE POWER SOURCE, AND ITS REQUEST FOR EXTENSION OF EXPIRATION DATES FOR RATE A AND RATE B (DIESEL FUEL ALTERNATIVE) OF SCHEDULE TOU-PA-6.

BY ADVICE LETTER 1125-E, FILED ON OCTOBER 6, 1995.

SUMMARY

1. Rate A and Rate B of Schedule TOU-PA-6 were to expire on October 1, 1995. In Resolution E-3421, the Commission allowed Rate B to be extended until the rates in Phase 2A of Southern California Edison Company's (Edison's) 1995 General Rate Case (GRC) are implemented and granted Rate A to be extended until December 1, 1995. In that Resolution, the Commission ordered Edison to file an advice letter containing the information collected during the experimental period of Rate A and the portion of revenue shortfall that Edison recommends its shareholders bear for Rate A, after December 1st, if authorized by the Commission.
2. Edison filed Advice Letter 1125-E supplying information on service provided under Rate A, and providing its recommendation that its shareholders should not bear any of the revenue shortfall if this rate is extended beyond its expiration date of December 1, 1995.
3. In this Advice Letter, Edison requested approval to extend the expiration date of Rate A until the date that rates are implemented in Phase 2B of Edison's 1995 GRC. To correct an inadvertent error, Edison also requested that Rate B be extended until the date that rates are implemented in Phase 2B rather than Phase 2A.
4. A late-filed protest was filed by Southern California Gas Company (SoCal Gas).
5. This Resolution authorizes Edison's request to extend the expiration date of Rate B until rates are implemented in Phase 2B of Edison's 1995 GRC.

6. This Resolution conditionally allows the extension of Rate A beyond December 1, 1995 to enable Edison to collect additional information from the experimental rate. The issues of permanent adoption of Rate A, allocation of benefits accruing to Edison from this rate, any ratepayer/shareholder revenue shortfall sharing, and evidence showing Rate A customers were uneconomic bypass risks, are to be considered in Phase 2B of Edison's 1995 GRC.

7. This Resolution authorizes Edison to extend the expiration date of Rate A until rates are implemented in Phase 2B on the condition that Edison accept shareholder responsibility for 50 percent of the revenue shortfall associated with Rate A during this interim period beginning December 1, 1995. If the Commission decides in Phase 2B that rate A should continue and that shareholders should fund a percentage of the revenue shortfall other than 50 percent, Edison should adjust its Electric Revenue Adjustment Mechanism (ERAM) for the difference dating back to December 1, 1995.

BACKGROUND

1. TOU-PA-6 is a time-of-use rate schedule available to Edison's existing large agricultural water pumping customers who are considering natural gas or diesel fuel as an alternate energy source to serve their water pumping load.

2. Rate A of this schedule is for customers who, without this rate, would convert from electric motors to natural gas internal combustion engines. Rate B applies to customers who would otherwise convert to diesel internal combustion engines.

3. Rate B was uncontested in Edison's 1994 Rate Design Window proceeding and adopted by the Commission in D.94-05-038. Rate B became effective June 5, 1994. Because there was disagreement over the adoption of Rate A, the Commission deferred its consideration until a later decision.

4. In D.95-04-026, the Commission adopted Rate A for a very short term to allow for a period of experimentation and information collection which would better prepare the Commission to decide whether bypass criteria should be applied to rate design schedules of this type. The Commission specified in that decision that the issues of permanent adoption of Rate A and allocation of benefits accruing to Edison from Rate A will be addressed in Edison's 1995 GRC. Following that decision, Rate A became effective on April 11, 1995.

5. Both Rate A and Rate B were to expire on October 1, 1995. In Resolution E-3421, dated September 27, 1995, the Commission allowed Rate B to be extended until the rates in Phase 2A of Edison's 1995 GRC are implemented but only granted the extension of Rate A until December 1, 1995. In that Resolution, the Commission ordered Edison to file an advice letter containing the information collected during the experimental period (i.e. 4/11/95 through 10/1/95) of Rate A and the portion of revenue

shortfall that Edison recommends its shareholders bear for Rate A, after December 1st, if authorized by the Commission.

6. Edison filed Advice Letter 1125-E on October 6, 1995 supplying information on service provided under Rate A, and providing its recommendation that its shareholders should not bear any of the revenue shortfall if this rate is extended beyond its expiration date of December 1, 1995.

7. In this Advice Letter, Edison also requested approval to extend the expiration date of Rate A until the date that rates are implemented in Phase 2B of Edison's 1995 GRC. To correct an inadvertent error, Edison also requested that Rate B be extended until the date that rates are implemented in Phase 2B rather than Phase 2A.

NOTICE

1. Advice Letter 1125-E was served on other utilities, government agencies, and to all interested parties who requested such notification, in accordance with the requirements of General Order (G.O.) 96-A.

PROTESTS

1. The twenty day protest period provided for in G.O. 96-A ended on October 26, 1995. SoCal Gas submitted its protest of Advice Letter 1125-E on October 31, 1995. SoCal Gas asks that the Commission accept its late filed protest because it did not receive notice and/or a copy of Advice Letter 1125-E until October 26, 1995.

2. SoCal Gas recommends that the Commission deny Edison's advice letter filing and require that Rate A be discontinued after December 1, 1995 until the issue is addressed within Phase 2B of Edison's 1995 GRC. Specifically, SoCal Gas submits that Edison fails to adequately respond to Resolution E-3421 in that it fails entirely to address the proposed shareholder portion of the discount. Also, SoCal Gas believes that Edison has not stated a basis and has not provided sufficient data to determine the benefit and need to continue its experimental tariff. SoCal Gas further submits that Edison will have had a sufficient period to experiment with and evaluate Rate A, as extended to December 1, 1995.

3. Additionally, SoCal Gas believes that the Commission should deny extension of the rate discount, as currently structured, because it encourages Edison to engage in competition supported by ratepayer subsidies, not by becoming more cost efficient. SoCal Gas asserts that Edison's rate as well as the philosophy that it represents is entirely inconsistent with where the deregulated marketplace headed.

4. SoCal Gas submits that Edison's request to extend Rate A beyond December 1, 1995 results in a price increase because 1) Edison's ratepayers would not have to bear the discounts after

the intended expiration of Rate A, and 2) since Edison has not shown adequate customer-specific detail to determine whether the customers currently on Rate A constitute "economic" or "uneconomic" bypass, it is possible that these customers might constitute "economic" bypass.

DISCUSSION

1. SoCal Gas submits that the experimentation period, as extended to December 1, 1995 is sufficient to evaluate Rate A. Although Rate A was implemented on April 11, 1995, according to workpapers filed with Advice Letter 1125-E, Edison did not obtain any customers until late July. By the end of August, Edison had 19 customers which generated approximately \$109,000 in revenues. As of the date Advice Letter 1125-E was filed, no data was available for September. Thus, Edison only collected actual information and data for one month of the 5 1/2 month authorized experimental period.
2. The Commission Advisory and Compliance Division (CACD) believes that the experimental Rate A should be extended to allow for the collection of additional recorded information and data that could be presented in Phase 2B of Edison's 1995 GRC where the Commission will be considering its permanent adoption.
3. Since Edison had very limited actual billing data for its 19 Rate A customers, it estimated the annual revenue shortfall associated with Rate A by calculating the difference between its estimated annual revenue from Rate A and that of the otherwise applicable rate schedules, using these 19 customers' annual energy usage characteristics.
4. Based on this analysis, Edison estimated that it would have collected approximately \$480,000 in revenue from the 19 Rate A customers, assuming they were taking service on this rate for one year. In contrast, Edison estimated that it would have collected approximately \$550,000 from these customers assuming they continued to take service under their otherwise applicable rate schedule and did not bypass Edison's electric system. This equates to a revenue shortfall of approximately \$70,000. Under the current ratemaking procedures, this shortfall would be recovered from all other ratepayers through the Electric Revenue Adjustment Mechanism (ERAM).
5. Edison recommends that its shareholders not bear any responsibility for this revenue shortfall because it believes that its ratepayers benefit from the contribution to margin associated with Rate A. Edison argues that without Rate A, 19 customers would bypass Edison's electric system due to the availability of SoCal Gas' Gas Engine Irrigation Rate Schedule. Edison states that the marginal cost of serving these customers under Rate A for the same one-year period is approximately \$300,000. Thus, ratepayers would benefit from a \$180,000 contribution to margin if the customers did not bypass Edison's system.

6. In its protest, SoCal Gas argued that Edison has not shown adequate customer-specific detail to determine whether or not the 19 customers constitute uneconomic bypass. SoCal Gas believes that it is possible that these customers might, to the contrary, constitute economic bypass in which case the 19 customer discounts are actually costing Edison's ratepayers an amount beyond the discount.

7. CACD does not believe that the issue of whether the experimental Rate A constitutes uneconomic bypass or not must be addressed in this Resolution. That issue is to be determined in Phase 2B of Edison's 1995 GRC. In D.95-04-026, the Commission found that Edison's existing large agricultural water pumping customers would likely convert their operations from electric motors to natural gas internal combustion engines, taking with them their contribution to Edison's fixed costs. Accordingly, the Commission found that the availability of Rate A would likely defer bypass of these customers and would allow Edison to compete to retain this load and provide an otherwise lost contribution to its fixed costs.

8. The Commission did state in D.95-04-026 that it needed to address whether shareholders should bear some of the revenue shortfall in situations where a showing of uneconomic bypass is unresolved, contested, or another utility is using shareholder funds to compete for the same customers, and thus, required the reexamination of Rate A in the rate design phase of Edison's 1995 GRC.

9. In Resolution E-3421, the Commission required Edison to submit its recommendation concerning how its shareholders would bear a portion of the revenue shortfall under Rate A. Edison responded in Advice Letter 1125-E that its shareholders should not bear any responsibility for the discount amount associated with the rate. SoCal Gas pointed out, in its protest, that Edison's recommendation was not responsive to the Commission.

10. CACD agrees with SoCal Gas and believes that Edison's recommendation is not reasonable given the record in recent Rate Design Window (RDW) proceedings. For example, the Commission recently concluded in D.95-10-033, Phase II of Pacific Gas and Electric Company's (PG&E's) electric RDW proceeding, that a 50% cost-sharing between shareholders and ratepayers of the revenue shortfall under bypass deferral contracts is reasonable for the transition period prior to electric industry restructuring.

11. CACD believes that if Rate A expires on December 1, 1995, before it can be extensively evaluated in Phase 2B of Edison's 1995 GRC, it is likely that Edison's Rate A customers may bypass Edison's electric system by switching from an electric motor to a natural gas engine for the purpose of water pumping. Once these customers have invested in a natural gas engine, CACD does not believe that it is likely that they will return to Edison's system regardless of whether the Commission permanently adopts Rate A. Conversely, if in Phase 2B, it is found that it is economic to bypass Edison's system, then customers can exercise their option at that time.

12. SoCal Gas argues, in its protest, that extending Rate A beyond December 1, 1995 will result in a price increase because ratepayers must pay for the rate discount. Although Rate A provides a discount from the otherwise applicable tariffs, provided the customer represents an uneconomic bypass risk, it is approximately \$180,000 above Edison's marginal cost to service these customers and thus provides a positive contribution to fixed costs.

13. CACD believes that Rate A should be conditionally extended beyond December 1, 1995 to enable Edison to collect additional information from the experimental rate. The issues of permanent adoption of Rate A, allocation of benefits accruing to Edison from this rate, any ratepayer/shareholder revenue shortfall sharing, and evidence showing Rate A customers were uneconomic bypass risks, are to be considered in Phase 2B of Edison's 1995 GRC.

14. CACD recommends that the Commission authorize Edison to extend the expiration date of Rate A until rates are implemented in Phase 2B on the condition that Edison accept shareholder responsibility for 50 percent of the revenue shortfall associated with Rate A during this interim period beginning December 1, 1995. If the Commission decides in Phase 2B that Rate A should be continued and that shareholders should fund a percentage of the revenue shortfall other than 50 percent, Edison should adjust ERAM for the difference dating back to December 1, 1995. CACD believes that Edison should file an advice letter requesting the establishment of a memorandum account.

15. CACD believes that modifications to Advice Letter 1125-E made in this Resolution address some of the concerns raised in SoCal Gas' protest and that the remaining issues will be addressed in Phase 2B of Edison's 1995 GRC. Accordingly, CACD recommends that SoCal Gas' protest to Advice Letter 1125-E be denied.

16. Because the issue of permanent adoption of Rate A and other related issues are yet to be considered, CACD believes that Edison should be required to notify all Rate A customers of the possibility that Rate A may be terminated in the future due to its experimental nature pending the outcome of Phase 2B of its 1995 GRC. CACD recommends that Edison notify all of its existing customers within 30 days of this Resolution, and notify all prospective customers prior to their acceptance of the rate that the rate is experimental and may be terminated. CACD recommends that Edison be required to serve a copy of such customer notification on CACD.

17. With respect to Rate B, CACD agrees with Edison that this rate was inadvertently extended to the date rates were to be implemented in Phase 2A instead of Phase 2B. CACD recommends that Rate B be extended until rates are implemented in Phase 2B.

FINDINGS

1. Edison only collected information and data for one month of the five and one-half month experimental period for Rate A that was established by the Commission.
2. Experimental Rate A should be conditionally extended to allow for the collection of additional recorded information and data that could be presented in Phase 2B of Edison's 1995 GRC where the Commission will be considering its permanent adoption.
3. The issue of whether the experimental Rate A constitutes uneconomic bypass is not resolved in this Resolution. However, the Commission did state in D.95-04-026 that it needed to address whether shareholders should bear some of the revenue shortfall in situations where a showing of uneconomic bypass is unresolved, contested, or another utility is using shareholder funds to compete for the same customers.
4. Edison's recommendation that its shareholders not bear any responsibility for the discount amount associated with Rate A is not reasonable given the record in recent RDW proceedings.
5. The Commission recently concluded in D.95-10-033, Phase II of PG&E's electric RDW proceeding, that a 50% cost-sharing between shareholders and ratepayers of the revenue shortfall under bypass deferral contracts is reasonable for the transition period prior to electric industry restructuring.
6. If Rate A expires on December 1, 1995, before it can be extensively evaluated in Phase 2B of Edison's 1995 GRC, it is likely that Edison's Rate A customers may bypass Edison's electric system by switching from an electric motor to a natural gas engine for the purpose of water pumping.
7. Once these customers have invested in a natural gas engine, it is likely that they will not return to Edison's system regardless of whether the Commission permanently adopts Rate A.
8. Although Rate A provides a discount from the otherwise applicable tariffs, provided the customer represents an uneconomic bypass risk, it is approximately \$180,000 above Edison's marginal cost to service these customers and thus provides a positive contribution to fixed costs.
9. Rate A should be conditionally extended beyond December 1, 1995 to enable Edison to collect additional information from the experimental rate. The issues of permanent adoption of Rate A, allocation of benefits accruing to Edison from this rate, any ratepayer/shareholder revenue shortfall sharing, and evidence showing Rate A customers were uneconomic bypass risks, are to be considered in Phase 2B of Edison's 1995 GRC.
10. CACD recommends that the Commission authorize Edison to extend the expiration date of Rate A until rates are implemented in Phase 2B on the condition that Edison accept shareholder responsibility for 50 percent of the revenue shortfall associated with Rate A during this interim period beginning December 1, 1995.

11. If the Commission decides in Phase 2B that Rate A should be continued and that shareholders should fund a percentage of the revenue shortfall other than 50 percent, Edison should adjust ERAM for the difference dating back to December 1, 1995.
12. Edison should file an advice letter requesting the establishment of a memorandum account.
13. Modifications to Advice Letter 1125-E made in this Resolution address some of the concerns raised in SoCal Gas' protest, and the remaining issues will be addressed in Phase 2B of Edison's 1995 GRC. Accordingly, SoCal Gas' protest to Advice Letter 1125-E should be denied.
14. Because the issue of permanent adoption of Rate A and other related issues are yet to be considered, Edison should be required to notify all Rate A customers of the possibility that Rate A may be terminated in the future due to its experimental nature pending the outcome of Phase 2B of Edison's 1995 GRC.
15. CACD recommends that Edison notify all of its existing customers within 30 days of this Resolution, and notify all prospective customers prior to their acceptance of the rate that the rate is experimental and may be terminated.
16. CACD recommends that Edison be required to serve a copy of such customer notification on CACD.
17. With respect to Rate B, this rate was inadvertently extended to the date rates were to be implemented in Phase 2A instead of Phase 2B.
18. CACD recommends that Rate B be extended until rates are implemented in Phase 2B.

THEREFORE, IT IS ORDERED that:

1. Southern California Edison Company's request in Advice Letter 1125-E regarding Rate A of Schedule TOU-PA-6 is approved subject to the following modifications:
 - a. Rate A of Schedule TOU-PA-6 shall be extended until new rates are implemented in Phase 2B of Southern California Edison Company's 1995 General Rate Case on the condition that Edison accept shareholder responsibility for 50 percent of the revenue shortfall associated with Rate A during this interim period beginning December 1, 1995.
 - b. If the Commission decides in Phase 2B that Rate A should be continued and that shareholders should fund a percentage of the revenue shortfall other than 50 percent, Edison should adjust the Electric Revenue Adjustment Mechanism for the difference dating back to December 1, 1995.
 - c. Southern California Edison Company shall notify, within 30 days of this Resolution, all existing customers receiving service under Rate A of Schedule TOU-PA-6 of the possibility that Rate A may be terminated in the future due to its experimental nature pending the outcome of Phase 2B of Southern California Edison Company's 1995 General Rate Case.
 - d. Southern California Edison Company shall notify all prospective customers of Rate A of Schedule TOU-PA-6, prior to their acceptance of the rate, of the possibility that Rate A may be terminated in the future due to its experimental nature pending the outcome of Phase 2B of Southern California Edison Company's 1995 General Rate Case.
 - e. Southern California Edison Company shall serve a copy of customer notifications on the Commission Advisory and Compliance Division.
2. Should Southern California Edison Company agree to the conditions of this Resolution, it may file an advice letter accepting these conditions by November 29, 1995. The advice letter should include a request for the establishment of a memorandum account and shall be effective on the date filed.
3. Southern California Edison Company is authorized to extend Rate B of Schedule TOU-PA-6 until new rates are implemented in Phase 2B of Southern California Edison Company's 1995 General Rate Case.

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4. Southern California Gas Company's protest to Advice Letter 1125-E is denied.
5. Advice Letter 1125-E shall be marked to show that it was approved as modified by Commission Resolution E-3431.
6. This Resolution is effective today.

I hereby certify that this Resolution was adopted by the Public Utilities Commission at its regular meeting on November 21, 1995. The following Commissioners approved it:



WESLEY FRANKLIN
Executive Director

DANIEL Wm. FESSLER
President
P. GREGORY CONLON
JESSIE J. KNIGHT, JR.
HENRY M. DUQUE
JOSIAH L. NEEPER
Commissioners