S.C. Ex. 146
A-59351
11-20-80
MARTY LYONS

PREPARED TESTIMONY OF M. G. LYONS

Application No. 59351

Q.1 Please state your name and business address.

A.1 I am Martin G. Lyons, Research Manager of the Economics Section in the Revenue Requirements Division of the California Public Utilities Commission. My business address is 350 McAllister Street, San Francisco, California.

Q.2 Have you previously testified in this proceeding?

A.2. Yes, I have. I testified on forecasted revenues, sales and customers for 1981. My qualifications and original testimony in this proceeding have already been entered in the record.

Q.3 What is the purpose of your testimony today?

A.3 The purpose of my testimony is to present a method which addresses the current uncertainty regarding 1981 test year sales and revenues. Staff proposes to establish a conservative level of sales and associated revenues for the Edison Company in 1981, above which the ratepayer would receive a refund if recorded revenues were to exceed this estimate. This proposal is made pursuant to the Commission's ordering of the reopening of Southern California Edison Company's general rate case, Application No. 59351, for the purpose of incorporating the latest information on electric sales.

All revenues referred to in this testimony are base rate revenues, exclusive of ECAC revenues, and are CPUC jurisdictional.

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For 1980, the utility's CPUC jurisdictional net sales are projected to remain at approximately their 1979 recorded level of 54 billion kWh which translates to approximately $1.2 billion. Because of current economic uncertainties which impact each class of service, the staff has developed this proposal to protect the ratepayer and at the same time give consideration to the uncertainty regarding 1981 test year estimated revenues.

For the limited purposes of this proposal, the staff recommends using utility forecasted 1981 net Edison sales of 53,815 million kWh and revenues of $1,206 million. After a review of the utility's sales estimate, the staff accepts this level of sales and revenues as proper and reasonable for establishing a conservative base level for 1981, together with a refund provision that would operate if actual base level revenues exceed these estimated base level revenues. This proposal is to serve as an alternative to a full and complete study to forecast 1981 sales, and permits the Commission sufficient time to render a decision within the time frame of the Regulatory Lag Plan. By adoption of this proposal, the ratepayer would be protected from a possible underestimate of revenues through the suggested refund provision. At the same time, the utility would have a reasonable opportunity to earn its adopted base rate revenues as long as its own estimate is reasonably correct. If 1981 revenues fall below this proposed level, the company would consequently sustain this loss.

This proposal would be in effect for 1981 subject to review for 1982, and is presented because of the current volatility of sales experienced by the utility. The review for 1982 of the suggested mechanism is discussed in Answer 5 of this exhibit. This recommendation is not proposed to establish any precedent. If this proposal is not adopted, the staff would recommend adoption of a revenue estimate of $1,222 million based on level of sales for 1981 of 54,565 million kWh.

Q - DURANT

Q.4 How would such a refund provision be implemented?

A.4 This plan would be implemented by establishing a balancing account to commence with the effective date of the new rates for 1981 approved by Commission decision. If revenues generated by electric sales exceeded the adopted estimate at the end of 1981, this account would contain a positive balance. This amount, with interest, would be refunded on the basis of total revenues from electric sales. The refund would not be related to the particular revenue balance for any specific class of service. If estimated revenues exceeded actual, this balancing account for 1981 would be closed out and the utility would not seek to recover the undercollection from the ratepayer. It is anticipated that the CPUC audit staff would review and report on the status and disposition of the balancing account at the end of 1981.

Q.5 What does the staff propose for the 1982 attrition year regarding possible extension of this balancing concept?

A.5 It is proposed that reevaluation of this methodology be considered in hearings limited to determining sales and revenues for 1982. This plan would be reviewed at the time of consideration of attrition, when the plan may be abandoned or the base may be changed for the year 1982.

If recorded revenues for 1981 differ from those adopted in this proceeding by less than 1% negative or positive, then base level revenues for 1982 would be equal to 1981 base level revenues plus the staff's estimated attrition allowance anticipated for 1982 of $104,331,000.

If recorded revenues for 1981 exceed or are less than those adopted in this proceeding by more than 1%, then new base level revenues for 1982 would be established in hearings that reflect the actual 1981 recorded information.

In any event, revenues above base level revenues plus interest would be refunded to ratepayers subject to audit by the staff's financial auditors.

The above scenarios protect ratepayers through the proposed refund procedures, yet provide the company with a reasonable opportunity to earn its rate of return.

Q.6 What do you recommend if the Commission does not adopt step rates for attrition or provide hearings in determining 1982 sales and revenues?

A.6 I recommend that this refund procedure be adopted for 1981 and that 1[illegible] sales and revenues reflect the adopted 1981 base level plus the attrition allowance originally estimated by staff between 1981 and 1982 in Exhibit No. 54. This equates to $1,205,579,000 plus attrition allowance of $104,331,000 or $1,309,910,000. This does not include additional revenues adopted by this decision. which sho be added

Q.7 How would your proposal be implemented as part of the 1982 attrition allowance proposed by the staff?

A.7 The staff has recommended in Exhibit No. 54 a step rate attrition allowance of $66,156,000 consisting of $60,159,000 in operational attrition and $5,997,000 in financial attrition. This does not include any additional financial attrition which the staff's financial witness may recommend in these hearings.

This attrition allowance estimate includes an offset referred to above, due to higher estimated 1982 revenues, of $38,175,000. Under my current proposal, the total attrition allowance or additional rate increase, would be $104,331,000 but the revenue base level for the balancing account would increase to $1,309,910,000. This amount does not include additional revenues adopted by this decision.

Q.8 What would you recommend if there is no continuation of the proposed method into 1982?

A.8 I recommend that the staff's earlier recommended attrition allowance of $66,156,000 be granted in a step rate for 1982. ← Q-DURANT + FINANCIAL ADDITIONAL

Q.9 What are the appropriate rates to use to calculate revenues for 1981 to establish a revenue base?

A.9 Base rates effective January 1, 1979, were used to derive the revenues of $1,205,579,000.

The rates which should be used to establish the 1981 base level revenue will be the rates put into effect by this decision.

Q.10 Does this conclude your testimony?

A.10 Yes.

Southern California Edison SCE

S.C.

Application No. 59351
Exhibit No. 152 (Late Filed)
Witness: R. L. Larson
Date: 11/25/80

SOUTHERN CALIFORNIA EDISON COMPANY

ESTIMATED OPERATIONAL AND FINANCIAL ATTRITION
(REVISION TO EXHIBIT NOS. 54 AND 54-A)

1. CALCULATION OF ESTIMATED OPERATIONAL ATTRITION

2. CALCULATION OF ESTIMATED FINANCIAL ATTRITION

Before the

PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

Rosemead, California
November 1980

INTRODUCTION

This Exhibit No. 152 has been prepared at the request of Administrative Law Judge James F. Haley to demonstrate the methodology followed in the preparation of Table A of Exhibit No. 54, and the revision of Table A in Exhibit No. 54-A.

Where more current data is available in the record than was used in Exhibit Nos. 54 and 54-A, the original estimates have been revised as shown in this Exhibit. A footnote has been shown for each estimate and calculation so the source of the data can be located and the use of the data in the calculations understood. The table shown below summarizes the attached three pages and demonstrates the results with and without a one-way balancing account ("Balancing Account"):

		With Balancing Account	Without Balancing Account
Operational Attrition	- Revenues	0	$(16,818)
	- Other	123,376	123,376
Financial Attrition		15,547	15,547
Total Attrition		$138,923	$122,105

SOUTHERN CALIFORNIA EDISON COMPANY

CALCULATION OF ESTIMATED OPERATIONAL ATTRITION
(Dollars in Thousands)

Item	Net Revenue (1)	Gross Revenue (2)	CPUC Jurisdiction (3)
Revenues $1,545,763 1/ x 1.7% 2/ x 0.64 3/	-	-	$ (16,818)
Operation and Maintenance Expense			
Labor ($261,128 4/ x 11.5%) 5/	-	$ 30,030	28,871 6/
Non-labor ($355,315 7/ x 11.5%) 8/	-	40,861	39,284 6/
Payroll Tax ($16,490 - $14,352) 9/	-	2,138	2,038 6/
Ad Valorem Taxes ($58,246 - $53,399) 10/	-	4,847	4,620 6/
Investment Tax Credit	$ 1,400 11/	2,889	2,743 6/
Rate Base ($4,808,000 - $4,529,000) 12/ x 11.13% 13/	31,053	53,261 14/	50,841 15/
		Net Total -	$ 111,579
		Productivity @ 2% -	(5,021) 16/
		Total -	$ 106,558

NOTE: Footnotes Attached

11-25-80

SOUTHERN CALIFORNIA EDISON COMPANY

FOOTNOTES TO

CALCULATION OF ESTIMATED OPERATIONAL ATTRITION

1/ Exhibit No. 143, Page 2, Revenues = $1,205,579 plus assumed rate increase of $340,184 (Exhibit No. 2, Page 19-4, Line 28, Column 15) = $1,545,763.

2/ Exhibit No. 140, Page 8.

3/ Factor to relate change in sales to change in revenues.

Exhibit No. 144	53,815.1 kWhrs	$1,205,579.4
Exhibit No. 2, Page 19-4, Line 1, Column 13	56,835.1 kWhrs	$1,248,668 Line 7, Column 13
Growth Rate	5.61%	3.57%

Ratio of growth in Revenues to growth in kWhrs = 3.57%/5.61% = 0.64.

4/ Exhibit No. 10-A, Page 6,
   a) Labor Base @ 9.5% = $256,450
   b) Labor Base @ 13.5% = $265,805
   Labor Base @ 11.5% = (a + b)/2 = $261,128

5/ Consumer Price Index
   Most current Los Angeles/Long Beach figure:

   September 1980 = 249.6 = 11.5% (Exhibit No. 10-B)
   October 1980 = 252.6 = 12.5%

6/ CPUC Jurisdictional Allocation based on Exhibit No. 54-A.

7/ Exhibit No. 85, Page 4, Column I,

Line 27		$1,086,456
Less:	Line 13	195,609
	Line 25	204,506
	Line 26	74,576
	Labor @ 9.5%	256,450
		$ 355,315

8/ The escalation rate used to adjust Non-labor expense is the same as that used for Labor expense. Historically, escalation for Non-Labor expense has been greater than Labor expense as is indicated in Exhibit No. 54-A.

9/ Exhibit No. 54-A (See also Exhibit No. 2, Page 14-2, Lines 3-5, Column 5 and 8).

10/ Exhibit No. 54-A (See also Exhibit No. 2, Page 14-2, Line 1, Columns 5 and 8).

11/ Exhibit No. 54-A.

12/ Exhibit No. 54-A (See also Exhibit No. 2, Page 17-2, Line 23, Columns 5 and 8).

13/ Exhibit No. 139, Table 24A, Line 10, Column 7.

14/ To reflect tax deductability of increased interest component of return:

Long-term Debt	x NTG =	4.09%	x 1.1140 =	4.56%
Preferred Stock	x NTG =	1.04%	x 2.0634 =	2.15%
Common Equity	x NTG =	6.00%	x 2.0634 =	12.38%
		11.13%		19.09%

($4,808,000 - $4,529,000) x 19.09% = $53,261

15/ CPUC Jurisdictional Allocation = CPUC Rate Base (Exhibit No. 2, Page 19-4, Line 25, Column 15) /System Rate Base x Gross Revenue (Column 2)
= $4,539,542/$4,808,000 x $53,261
= $50,841

16/ Productivity = Labor x 2% x CPUC Jurisdictional Allocation
= ($261,128 x 2%) x ($28,871)/([illegible],030) (See labor in Columns 2 and 3.)
= $5,021

SOUTHERN CALIFORNIA EDISON COMPANY

CALCULATION OF ESTIMATED FINANCIAL ATTRITION
(Dollars in Thousands)

Attrition in Cost of Money (DEBT)	0.23% 1/
CPUC Jurisdictional Rate Base	$4,589,542
Net Revenues	10,556
Gross Revenues	11,759 2/
Attrition in Cost of Money (PREFERRED)	0.04% 3/
CPUC Jurisdictional Rate Base	$4,589,542
Net Revenues	1,836
Gross Revenues	3,788 4/
COMBINED ATTRITION IN COST OF MONEY	0.27% 5/
TOTAL FINANCIAL ATTRITION	$ 15,547

1/ Exhibit No. 139, Table 24A, Column 7, Line 11 - Line 6.

2/ Exhibit No. 54, Page 15-BMD, Net-to-Gross = 1.1140.

3/ Exhibit No. 139, Table 24A, Column 7, Line 13 - Line 7.

4/ Exhibit No. 54, Net-to-Gross = 2.0634.

5/ See Christie, Tr. 52/ 4944, Line 18.

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