ALJ/rr/ec

ORIGINAL

Decision 84 05 055

BEFORE THE PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

In the Matter of the Application of SOUTHERN CALIFORNIA EDISON COMPANY for Authority to Establish a Major Additions Adjustment Clause, to Implement a Major Additions Adjustment Billing Factor and an Annual Major Additions Rate to Recover the Costs of Owning, Operating, and Maintaining San Onofre Nuclear Generating Station Unit No. 2 and to Adjust Downward Net Energy Equal the Increase in Major Additions Adjustment Clause Rates.	Application 82-02-40 (Filed February 18, 1982; amended December 1, 1982 and October 4, 1983)
And Related Matters.	Applications 83-10-36 82-03-63 83-10-12 83-11-19

(For appearances see D.83-09-007 and D.84-03-059.)

INTERIM OPINION

In Decision (D.) 84-03-059 we authorized San Diego Gas & Electric Company (SDG&E) and Southern California Edison Company (Edison) to file revised Annual Major Addition Rate (AMAR) Tariffs to include a Noninvestment-related Expense Rate at 1984 expense levels for San Onofre Nuclear Generating Stations Units 2 and 3 (SONGS 2 & 3). Although hearings on the issue of recovery of home office overhead expenses billed by Edison to SDG&E had not been completed, the Commission issued D.84-03-059 in order to permit SDG&E and Edison to begin recovering noninvestment-related expenses when SONGS 3 went into commercial operation around April 1, 1984. In D.84-03-059 the Commission indicated that a further order adjusting SDG&E's Noninvestment-related Expense Rate would be considered upon the conclusion of the hearings on this issue.

On March 6, and 20, 1984 SDG&E presented witnesses James Montgomery and Frank H. Ault to testify on home office overhead charges billed by Edison to SDG&E. Montgomery testified on the estimate of the expenses shown on Exhibit 11 and Ault testified as to the nature of the A&G expenses and the appropriateness of including such expenses in the utilities' joint operating agreement and the appropriateness of recovery of those expenses in rates.

SDG&E made its estimate of home office overhead charges billed by Edison by:

a. Developing a labor factor for O&M expenses from Edison's amended Application (A.)82-02-40 of October 4, 1983 for SONGS 2 and A.83-10-36 for SONGS 3 of 45.39%.

b. Applying the labor factor of 45.39% to the stipulated O&M expenses of $20,256,000 to arrive at a labor cost of $9,194,000.

c. Applying the current overhead factor of 27.53% to the labor portion.

d. The resulting home office overhead charge of $2,531,000 was allocated equally to SONGS 2 & 3 or $1,266,000 per unit.

e. Adding the related franchise and uncollectibles of $29,000 per unit would result in an additional revenue requirement of $1,295,000 per unit.

This will require an increase in the AMAR for noninvestment-related expenses from the 0.120¢/kWh authorized in D.84-03-059 to 0.132¢/kWh for each unit.

Witness Ault testified that it was standard practice for operating agreements to contain provisions for an operator-owner of a jointly owned facility to bill the nonoperating owner for A&G expenses. The A&G expenses billed by Edison to SDG&E are amounts included in Federal Energy Regulatory Commission (FERC) Account 920, Administrative and General Salaries; Account 921, Office Supplies and Expenses; Account 923, Outside Services Employed; and Account 932, Maintenance of General Plant. These expenses include salaries and expenses of administrative personnel whose time is of such a general nature that they cannot be charged to a production, transmission, distribution or customer account. These include general officers and Edison staff who give general direction to Edison's operations, including SONGS, and areas such as personnel, payroll, and accounting which support personnel, records, or operations of all Edison facilities including SONGS.

Ault testified that Edison bills each SONGS participant an A&G cost based on a rate applied to each dollar of shareable direct labor expense. The current rate is 27.53% of labor. This rate varies each year and is based on Edison's actual costs and actual labor expenses charged to Edison's construction and operating accounts. The current rate is based on an interim agreement which provides for the use of the rate used under the SONGS 1 agreement. The operating agreement is currently being renegotiated and will apply to all three units.

In summary SDG&E argues that its request to recover in rates the estimated home office charges billed by Edison to SDG&E is reasonable since:

1. A&G expense payments are a usual and normal part of a joint operating agreement.
2. Such A&G charges from operating partners to other parties ensures that nonoperating parties pays a fair share of the home office expenses of the operating partner.
3. The general nature of A&G expenses is that it is not possible to directly bill these expenses to a project.
4. Percentage of labor or percentage of total expenses is a normal way for billing overhead expenses.
5. SDG&E is currently being billed at 27.53% of direct labor expenses and such percentage is a reasonable basis for estimating the A&G expenses to be billed SDG&E in the 1984 time frame.
6. Exhibit 11 computes an estimated A&G expense billing of $1,266,000 per unit based upon the stipulated direct O&M expenses.
7. No party has questioned that the A&G expenses is being billed to SDG&E on the basis of 27.53% of direct labor.
8. Although the San Onofre Operating Agreement is currently being renegotiated, the A&G formula which has been agreed upon would result in a slight increase in the A&G billings over the amount shown in Exhibit 11.
9. While SDG&E is billed on a monthly basis, all estimates and reconciliations for this expense item are done on an annual basis.
10. SDG&E proposes that its Energy Cost Adjustment Clause (ECAC) and Annual Energy Rate (AER) be reduced appropriately to offset the additional increase in the Major Additions Adjustment Clause (MAAC)AMAR rate.

Staff Position

Staff argues that SDG&E has not proven the reasonableness of the home office expense charges billed by Edison but only the existence of the expense. Staff further argues that currently there is a formula calling for 26.63% of SONGS 2 & 3 labor cost plus 1% of all nonlabor costs for billing home office expenses to SDG&E , but that this has not been finalized. Furthermore, the 27.53% figure used by SDG&E under the interim agreement is based on the methodology used in the SONGS 1 operating agreement. Staff argues that it has not been able to determine whether the amounts calculated using the old or the new formula are reasonable since it has not reviewed Edison's home office expenses in this proceeding. Staff believes that SDG&E has failed to show that Edison is making a reasonable allocation to SONGS 2 &3 and whether the amount being billed to SDG&E is reasonable. Staff also argues that its O&M expenses which were adopted by the Commission may have included home office expenses. Staff suggests that Edison perhaps is already recovering such costs in base rates and should not be billing SDG&E.

City of San Diego's (City) Position

City also raises the question whether SDG&E is paying twice for Edison's home office expenses. It states that the key question is whether the stipulated O&M expenses for SDG&E already includes a payment for SDG&E's share of home office expenses. Furthermore, even if there is no double billing, SDG&E should not be allowed to recover such expenses until SDG&E shows on the record that the expenses are reasonable and justified.

Discussion

There is no disagreement that SDG&E will be billed home office overhead expenses by Edison, and that charges by an operating owner to a nonoperating owner is a normal utility practice

The staff argues that SDG&E has not signed a formal agreement; and therefore there is no record of what the final formula figures will be. The staff questions the estimated expenses based on application of the SONGS 1 formula and questions the reasonableness of any estimates based on such a formula. We disagree with staff. While it may be desirable that a final agreement is available for making estimates, it is not necessary that there be one for ratemaking purposes. It is only necessary that the amount allowed for ratemaking purposes be reasonable. Based on the evidence in the record we believe that an estimate based on the formula in the SONGS 1 operating agreement is reasonable for the purposes of this proceeding. Furthermore, witness Ault testified that although the operating agreement has not been finalized a revised formula calling for a 26.63% of direct labor charges plus a 1% charge on all nonlabor expenses has basically been approved. This would produce a billing slightly higher than under the old formula according to Ault which indicates that the estimate is within the range of reasonableness.

Staff further argued that SDG&E has failed to prove why overhead expenses could not be directly charged to SONGS 2 & 3 and why an allocation was necessary. We disagree with staff. A review of the Uniform System of Accounts clearly shows that the nature of overhead expenses is such that it cannot be readily charged to functional accounts or to construction and needs to be allocated on some reasonable basis. We believe that the methodology used by SDG&E in estimating home office overhead expense charges billed from Edison is reasonable for the purposes of this proceeding.

Parties have also raised the question that the O&M expenses used by the staff and adopted by the Commission may have contained home office overhead expenses. If this were true, allowing SDG&E to collect separate home office charges from Edison may result in a double counting. We believe this is highly unlikely since the expenses in question would have remained in the normal A&G expense accounts of the operator-owner and would be allocated only if such amounts are to be charged to construction or are to be billed to some other party such as SDG&E in this instance. Furthermore, in adopting the averaging method for estimating SONGS 2 & 3 O&M expenses for the purposes of this proceeding we were considering only O&M expenses and not A&G expenses as well. In fact, SDG&E was allocated its 20% share of the total O&M expenses for all participants and Edison 75.05% of such total. It is clear that home office charges billed to SDG&E from Edison were not included in the allocated O&M expenses.

While the record is not clear as to why Edison did not seek to recover similar costs in this proceeding, it is clear that these costs are real costs to SDG&E and these costs were not considered in any other proceedings before the Commission. We therefore believe that it is only reasonable to allow SDG&E to recover the estimated home office billing charges from Edison in this proceeding.

In authorizing SDG&E higher rates to recover the home office overhead charges billed by Edison we will recognize the additional fuel savings from the commercial operation of SONGS 3 stipulated to by SDG&E and staff in adjusting rates in this order. The stipulated fuel savings of $35 million for the seven-month period April through October 1984 will be adopted in lieu of the $27,757,000 figure for the period March 1, 1984 through October 31, 1984 used in D.84-03-059. We will require SDG&E to refund to customers the overcollection of AER revenues resulting from the lower fuel savings estimate used in D. 84-03-059 for the period April 1, 1984 to the effective date of this decision.

For the purpose of this decision, in order to maintain rate stability, we will require SDG&E to offset the additional MAAC rate increases by decreases in the ECAC and AER rates on a uniform

¢/kWh-basis so that the net effect of this order will result in no net rate change to customers. We recognize that this treatment deviates from the rate design policy adopted in SDG&E's recent rate case decision, D.83-12-065. We adopt this limited deviation for SDG&E in this instance to simplify an otherwise complicated proceeding. To the extent that the final stipulated fuel savings for SONGS 3 exceed the AMAR rate change we are authorizing SDG&E in this order, we will authorize SDG&E to increase its Ownership Rate and decrease the amount otherwise accruable in the MAAC balancing account.

Findings of Fact

1. SDG&E estimates home office overhead billing charges from Edison of $1,266,000 per unit for SONGS 2 & 3. Such estimate is based on application of the formula in the SONGS 1 operating agreement which is currently being renegotiated and will be applicable to all three units.

2. The home office overhead billing charges from Edison have not been included in any other proceedings before this Commission as related to SDG&E.

3. It is a normal practice for owner operators to bill other owners a fair share of the home office overhead expenses.

4. It is the general nature of A&G expenses that they cannot readily billed to a certain project or functional account.

5. SDG&E's estimate of home office overhead billing charges from Edison of $1,266,000 per unit is reasonable.

6. The Noninvestment-related Expense Rates for SONGS 2 & 3 after inclusion of the home office overhead expense charges billed by Edison to SDG&E are 0.132¢/kWh for each unit.

7. SDG&E and staff stipulated to a fuel savings estimate of $35 million dollars for the seven-month period April 1, 1984 through October 31, 1984.

8. It is reasonable for SDG&E to file a revised ECAC and AER tariff to be effective on the date of filing in accordance with Appendix A.

9. The net changes in rate levels resulting from adopting SDG&E's estimate of home office expense charges billed from Edison for Phase 1B of these proceedings are fair, just, and reasonable.

10. The present tariffs and rate levels, to the extent they are inconsistent with the rate levels resulting from the adoption of SDG&E's estimate of home office expense charges billed from Edison for Phase 1B of these proceedings are unfair, unjust, and unreasonable.

11. Since the final adopted fuel savings for SDG&E of $35 million on the commercial operation of SONGS 3 is greater than the $27,757,000 fuel savings estimate used in D. 84-03-059, it is reasonable for SDG&E to refund to ratepayers the difference in rate reductions which would have taken place between the date that rates authorized in D. 84-03-059 went into effect and the date that rates authorized in this order goes into effect by crediting the ECAC balancing acount for the overcollected AER revenues for the period.

12. In order to promote rate stability, it is reasonable to require SDG&E to offset the increased estimated fuel savings against increases in the MAAC noninvestment-related expense rate increases authorized in this order for SONGS 2 & 3 with any unused fuel savings being used to increase the MAAC Ownership Rates for SONGS 3 and correspondingly reduce the investment-related cost accruals to the MAAC balancing account. The net effect of these rate changes should result in no net change in the bills of individual customers.

Conclusions of Law

1. SDG&E should be authorized to file tariffs reflecting a revised AMAR which includes a Noninvestment-related Expense Rate of 0.132¢/kWh for SONGS 2 to include home office overhead billing charges for SONGS 2 from Edison of $1,266,000 and a similar 0.132¢/kWh rate for SONGS 3. These tariff changes should be effective for service rendered on and after the date such tariffs are filed.

2. SDG&E should be authorized to file revised tariffs to reduce ECAC and AER rates in accordance with Appendix A to recognize the final stipulated fuel savings attributable to the commercial operation of SONGS 3 between April 1, 1984 and October 31, 1984 of $35 million.

3. SDG&E should be authorized to file revised MAAC Ownership Rate tariffs for SONGS 3 equivalent to the additional stipulated fuel savings resulting from the commercial operation of SONGS 3 over the amounts recognized in D. 84-03-059, less amounts used to offset the additional noninvestment-related expenses authorized for SONGS 2 and 3 in this order.

4. The effective date of this order should be the date on which it is signed to enable SDG&E to recover home office overhead billing charges from Edison for SONGS 2 & 3.

INTERIM ORDER

IT IS ORDERED that:

1. San Diego Gas & Electric Company (SDG&E) is authorized and directed to file with this Commission on or after the effective date of this order, tariffs reflecting a revised authorized annual MAAC revenue of $2,590,000 for its ERAM, a revised AMAR which includes an average Noninvestment-related Expense Rate of 0.132¢/kWh for SONGS 2 and a similar 0.132¢/kWh rate for SONGS 3. Such tariffs shall be effective for service rendered on and after the date filed.

2. SDG&E is authorized and directed to file with this Commission tariffs reducing ECAC and AER rates to reflect additional stipulated fuel savings resulting from the commercial operation of SONGS 3 and not previously recognized in D. 84-03-059. SDG&E is further directed to refund to customers the overcollection in AER revenues resulting from the lower fuel savings estimate used in D. 84-03-059 compared to the final stipulated fuel savings of $35 million adopted in this order for the period April 1, 1984 to the date that rates authorized in this order go into effect by crediting such overcollection to the ECAC balancing account. Such tariffs shall be effective for service rendered on and after the date filed.

3. SDG&E is authorized and directed to file with this Commission revised MAAC Ownership Rate tariffs with increases equivalent to the final adopted fuel savings resulting from the commercial operation of SONGS 3 over the amounts recognized in D. 84-03-059, less amounts used to offset the additional noninvestment-related expenses authorized for SONGS 2 & 3 in this order. Such tariffs shall be effective for service rendered on and after the date filed.

This order is effective today.

Dated May 16, 1984, at San Francisco, California.

LEONARD M. GRIMES, JR.
President
VICTOR CALVO
PRISCILLA C. GREW
DONALD VIAL
Commissioners

Commissioner William T. Bagley, being necessarily absent, did not participate.

I CERTIFY THAT THIS DECISION WAS APPROVED [illegible] ABOVE COMMISSIONERS [illegible]

Joseph E. Bodovitz, Executive Director

TABLE A

SAN DIEGO GAS & ELECTRIC

SONGS III FUEL SAVINGS

MONTH	GENERATION GWHR *	NUCLEAR COSTS $/MWHR	NUCLEAR COSTS M$	GAS SAVINGS $/MWHR	GAS SAVINGS M$	FOB EST. NET SAVINGS M$
MARCH	0	0	0	0	0	0
APRIL	113.89	11.94	1359.847	55	6263.95	4904.103
MAY	117.686	11.94	1405.171	55	6472.73	5067.559
JUNE	113.89	11.94	1359.847	55	6263.95	4904.103
JULY	117.686	11.94	1405.171	55	6472.73	5067.559
AUGUST	117.686	11.94	1405.171	55	6472.73	5067.559
SEPTEMBER	113.89	11.94	1359.847	55	6263.95	4904.103
OCTOBER	117.686	11.94	1405.171	55	6472.73	5067.559
TOTAL	812.414		9700.223		44682.77	34982.55

* .220GW X75.0%CF X DAYS X 24HOURS/DAY

TABLE B

SAN DIEGO GAS & ELECTRIC

ECAC AND AER RATE CHANGES

SONGS III FUEL SAVINGS FROM TABLE A (APRIL THROUGH OCTOBER) M$ 34982.55

	UNITS	ECAC DECREASE	AER DECREASE
ECAC ALLOCATION 92%x .988736	M$	31821.42	-
AER ALLOCATION 8% x .988736	M$	-	2767.080
ESTIMATED SALES	GWHRS	5922.57	5922.57
UNIFORM CHANGE OF RATES TIMES F&U FACTOR OF 1.0128	C/KWHR	.5441681	.0473190
NET DECREASE IN RATES	C/KWHR	.544	.047

TABLE C

ECAC & AER RATE CHANGES BASED ON DIFFERENT SONGS III STARTING MONTHS *

STARTING MONTH	CUMULATIVE SALES GWHR	SAVINGS M$	ECAC DECREASE C/KWHR	AER DECREASE C/KWHR
APRIL	5922.57	34982.55	.544	.047
MAY	5106.49	30078.44	.543	.047
JUNE	4310.84	25010.88	.535	.046
JULY	3477.91	20106.78	.533	.046
AUGUST	2647.13	15039.22	.523	.046
SEPTEMBER	1782.73	9971.663	.515	.045
OCTOBER	886.84	5067.559	.526	.046

*Calculated Similar to Table B

(End of Appendix A)

2. SDG&E is authorized and directed to file with this Commission tariffs reducing ECAC and AER rates to reflect additional stipulated fuel savings resulting from the commercial operation of SONGS 3 and not previously recognized in D. 84-03-059. SDG&E is further directed to refund to customers the overcollection in AER revenues resulting from the lower fuel savings estimate used in D. 84-03-059 compared to the final stipulated fuel savings of $35 million adopted in this order for the period April 1, 1984 to the date that rates authorized in this order go~~es~~ into effect by crediting such overcollection to the ECAC balancing account. Such tariffs shall be effective for service rendered on and after the date filed.

3. SDG&E is authorized and directed to file with this Commission revised MAAC Ownership Rate tariffs with increases equivalent to the final adopted fuel savings resulting from the commercial operation of SONGS 3 over the amounts recognized in D. 84-03-059, less amounts used to offset the additional noninvestment-related expenses authorized for SONGS 2 & 3 in this order. Such tariffs shall be effective for service rendered on and after the date filed.

This order is effective today.

Dated MAY 16 1984, at San Francisco, California.

LEONARD M. GRIMES, JR.
President
VICTOR CALVO
PRISCILLA C. GREW
DONALD VIAL
Commissioners

Commissioner William T. Bagley being necessarily absent, did not participate.