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Decision 91-05-020 May 8, 1991

BEFORE THE PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

In the Matter of the Application of )  
SOUTHERN CALIFORNIA EDISON COMPANY )  
(U 338-E) for authorization to )  
implement a plan of reorganization )  
which will result in a holding )  
company structure. )

**ORIGINAL**  
Application 87-05-007  
(Petition for Modification  
filed January 22, 1991)

OPINION ON PETITION FOR MODIFICATION  
OF DECISION 88-01-063

1. Introduction and Background

By Decision (D.) 88-01-063 dated January 28, 1988 we authorized Southern California Edison Company (Edison) to implement a proposed reorganization plan and to create a holding company structure. Edison and its unregulated, nonutility subsidiaries were authorized to become separate, wholly owned subsidiaries of a holding company, with present holders of Edison's common stock becoming the shareholders of a newly formed corporation, SCE Holding Company.

The authority was made contingent upon acceptance by Edison and its related companies of numerous conditions set forth in Ordering Paragraph 1 of D.88-01-063. The Commission's Division of Ratepayer Advocates (DRA) seeks modification of one of those conditions. In relevant part, Condition 5.e. states:

"Edison shall submit, as a separate exhibit in its next general rate case, an audit of all transactions between Edison and its nonutility affiliates, to be performed by an outside auditing firm which shall be selected and supervised by the Commission's Division of Ratepayer Advocates."

2. Petition for Modification

By a petition for modification of D.88-01-063 filed on January 22, 1991, DRA requests that the affiliate transactions

audit ordered for inclusion in Edison's "next" general rate case (GRC) be deferred to a more convenient time.

DRA notes that at the time D.88-01-063 was issued, the next Edison GRC which was anticipated under the Rate Case Plan was for test year 1991 (1991 GRC). However, Edison subsequently filed Application (A.) 88-12-035 by which it requests authority to merge with San Diego Gas and Electric Company (SDG&E). Due to the additional workload associated with the merger application, DRA filed a motion to defer Edison's 1991 GRC. Following that motion, the Commission issued two decisions (D.89-08-036 and D.89-12-052) which deferred the 1991 GRC, authorized Edison to file an application for a 1991 operational attrition adjustment in lieu of the 1991 GRC, and ordered Edison to file an application for a test year 1992 GRC (1992 GRC).

Edison's 1992 GRC filing, A.90-12-018, is now being heard. At a prehearing conference held in that proceeding on January 11, 1991, DRA advised the parties and the administrative law judges of difficulties it had encountered in undertaking the affiliate transactions audit within the confines of the Rate Case Plan schedule for the 1992 GRC. DRA then announced its intention to file this petition for modification.

DRA states that in addition to the continued workload commitments of the Edison/SDG&E merger proceeding, the accelerated schedule for that proceeding combined with retirement of key personnel within the Audit Branch have delayed commencement of the DRA-supervised affiliate transactions audit. DRA anticipates that beginning with the issuance of a request for proposal, a minimum of nine months is required for the audit process prior to evidentiary hearings. DRA believes that as a practical matter, evidentiary hearings on an audit cannot be convened before early 1992,

precluding any review in Phase 1 of A.90-12-018 and making any review in Phase 2 of that proceeding virtually impossible.<sup>1</sup>

DRA suggests various alternatives for consideration of a deferred audit: the next Edison GRC (which DRA anticipates will be for test year 1995), a later phase of the current 1992 GRC, or a separate proceeding. DRA believes that in order to minimize the uncertainty and delay in the current Edison GRC, it is reasonable and prudent to defer the audit until the earlier of the next Edison GRC or the issuance of a final, effective decision in the Edison/SDG&E merger proceeding.

### 3. Response of Edison

Edison was the only party to respond to DRA's petition. Edison states that it recognizes the importance of the audit ordered by D.88-01-063, and notes that it has provided testimony on affiliate transactions in its 1992 GRC filing. Edison states that it is ready to proceed with the audit. At the same time, it does not oppose DRA's petition for a deferral of the audit.

If the audit is deferred, Edison believes it should be considered in its next GRC. Edison offers several reasons in support of this alternative. First, Edison points out that deferral to a 1994 or 1995 GRC would provide an additional two or three years of history for Commission review.<sup>2</sup> Edison believes "[t]his would provide for a more meaningful look at the Company's

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1 See "Administrative Law Judges' Ruling Following First Prehearing Conference" in A.90-12-018 and I.89-12-025, dated February 1, 1991.

2 Edison notes there is some question whether its next GRC will be for test year 1994 or test year 1995. D.89-12-052 left open the timing of the next GRCs for Edison and SDG&E until resolution of the Edison/SDG&E merger proceeding. Edison believes it appears more likely that the GRC will be for test year 1995.

affiliate transactions than is possible today, with such a limited history available."

Edison also notes that some aspects of its transactions with affiliates were recently reviewed in the Edison/SDG&E merger proceeding. While it acknowledges that that review is not the equivalent of the audit ordered by D.88-01-063, Edison nevertheless believes that it did provide a forum for evaluating "some of the policy issues underlying Edison's relationships with its affiliates." Accordingly, Edison believes that it is unnecessary to review affiliate issues immediately after the merger proceeding, as suggested by DRA in one of its proposed alternatives.

According to Edison, setting the audit for review in the next GRC would provide certainty as to the forum and timing for the audit. Adopting this alternative will allow Edison, DRA, and interested parties to plan their showings on the affiliates issues. Edison prefers this degree of certainty to the more open-ended alternative of awaiting a final, effective merger decision.

#### 4. Discussion

With some reluctance, we will defer the affiliate transactions audit ordered by D.88-01-063. We would have preferred to review the audit in Phase 1 of the 1992 GRC, but given the delays encountered by DRA due to the press of the Edison/SDG&E merger application, we are persuaded that deferral is necessary and appropriate. We note that DRA should have advised us earlier of its inability to initiate the audit as originally directed.

As a practical matter, the audit cannot be completed in time for hearings set pursuant to the Rate Case Plan schedule for Edison's current GRC proceeding. DRA expects the audit process to require at least nine months. Our current experience with an independent management audit of Pacific Gas and Electric Company (PG&E), which includes a review of interactions between PG&E and PG&E Enterprises, (ordered in December 1989 by D.89-12-057, at Ordering Paragraph 18) suggests that the nine-month estimate might

be too optimistic. That process is still under way. Any audit that could be performed and considered under the current schedule for Edison's 1992 GRC would fall far short of the thorough analysis we believed was necessary when we issued D.88-01-063 and which we still believe is necessary today.

Edison recommends that the audit be deferred to its next GRC. DRA recommends that it be deferred either to the next GRC or until there is a final, effective decision in the Edison/SDG&E merger proceeding, whichever is earlier. Because we want to plan for a thorough review, to be completed as soon as reasonably possible, we will not adopt either of those alternatives.

As we stated in D.88-01-063, "[t]here is always the risk when affiliates and the utility do business together, holding company organization or not, that improper allocations will result in higher costs of service and, therefore, higher rates than necessary." (D.88-01-063, p. 22.) We imposed numerous conditions on Edison's authorization to reorganize because of this type of risk, including the condition at issue in this petition. We are aware of nothing that has occurred since 1988 that would persuade us that a thorough, independent audit is any less important now as a means of determining whether Edison's transactions with affiliates are conducted in a manner which benefits its customers.

Accordingly, we wish to preserve an opportunity for a complete review of such transactions as soon as possible. That can best be accomplished by planning for a review as soon as an audit can be completed. While we appreciate Edison's view that deferring the audit until its next GRC would allow a "more meaningful look," we are committed to completing the process we initiated by D.88-01-063 more than three years ago. If an audit reveals a need to address the policies, practices, and procedures followed by Edison in dealing with its affiliates, ratepayers will be better served by doing so as soon as possible.

We also reject DRA's alternative proposal to link the timing of the audit process to the Edison/SDG&E merger proceeding. As noted by Edison, there is too much uncertainty as to the date of a final, effective order (including a Federal Energy Regulatory Commission order) in that proceeding. Moreover, although that proceeding addresses affiliate transaction issues (a review which Edison admits addresses only some affiliates issues), we find insufficient basis for such a linkage.

We believe it is reasonable to order completion of an audit by July 31, 1992. This will allow approximately 14 months from today's order. Based on DRA's own estimate of nine months and our experience with the PG&E audit noted earlier, we believe 14 months should be adequate. We will consider the audit in a subsequent phase of Edison's 1992 consolidated GRC proceedings (A.90-12-018, I.89-12-025, and I.91-02-079).

As noted earlier, after the issuance of D.88-01-063 in Edison's holding company proceeding we ordered an audit of the relationship of PG&E and PG&E Enterprises in PG&E's test year 1990 GRC decision (D.89-12-057). While these audits are not exactly the same in nature, there is one element of the more recent PG&E audit directive which, we believe, provides a useful model for the Edison audit. We provided that the PG&E audit project and contract administration would be coordinated by a Project Coordinator appointed by the Commission Advisory and Compliance Division (CACD). (D.89-12-057, p. 165.) We will make a similar provision for the Edison audit. This will allow both DRA and CACD to fulfill their respective advocacy and advisory roles more effectively.

#### Findings of Fact

1. At the time D.88-01-063 was issued, the next Edison GRC which was anticipated under the Rate Case Plan was for test year 1991, but the Commission subsequently ordered Edison to file a 1992 GRC.

2. DRA has encountered difficulties in completing the affiliate transactions audit ordered by Condition 5.e. of Ordering Paragraph 1 of D.88-01-063 due to workload associated with the Edison/SDG&E merger proceeding and the retirement of key personnel.

3. DRA anticipates that beginning with the issuance of a request for proposal, a minimum of nine months is required for the audit process prior to evidentiary hearings.

4. As a practical matter, evidentiary hearings on an audit cannot be convened before early 1992, and any audit that could be performed and considered under the current schedule for Edison's 1992 GRC would in all likelihood be inadequate for our purposes.

5. A period of approximately 14 months, commencing with the issuance of this decision, should be adequate for completion of the affiliate transactions audit ordered by D.88-01-063, as modified by the order which follows.

6. In PG&E's test year 1990 GRC decision (D.89-12-057) we provided that the PG&E audit project and contract administration would be coordinated by a Project Coordinator appointed by CACD.

7. Coordination of the Edison audit project and contract administration by a contract coordinator appointed by CACD will allow both DRA and CACD to more effectively fulfill their respective advocacy and advisory roles.

#### Conclusions of Law

1. D.88-01-063 should be modified to provide for deferral of the affiliate transactions audit ordered by Condition 5.e. to July 31, 1992.

2. The audit project and contract administration should be coordinated by a project coordinator appointed by CACD.

3. To avoid further delays in the initiation and completion of the audit, this order should be made effective on the date it is signed.

ORDER

IT IS ORDERED that Condition 5.e. of Ordering Paragraph 1 of Decision 88-01-063 is modified to read:

"Edison shall submit, as a separate exhibit in its test year 1992 general rate case, an audit of all transactions between Edison and its nonutility affiliates, to be performed at Edison's expense by an outside auditing firm which shall be selected and supervised by a Project Coordinator appointed by the Director of the Commission Advisory and Compliance Division. The consultant's audit report shall be completed and submitted to the Commission as directed by the Project Coordinator, on or before July 31, 1992. The need for subsequent audits will be determined in Edison's 1992 general rate case."

This order is effective today.

Dated May 8, 1991, at San Francisco, California.

PATRICIA M. ECKERT  
President  
G. MITCHELL WILK  
JOHN B. OHANIAN  
DANIEL Wm. FESSLER  
NORMAN D. SHUMWAY  
Commissioners

I CERTIFY THAT THIS DECISION  
WAS APPROVED BY THE ABOVE  
COMMISSIONERS TODAY

  
NEAL J. SHULMAN, Executive Director