

Mailed

DEC 20 1991

Decision 91-12-046 December 18, 1991

BEFORE THE PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

Order Instituting Investigation on)
the Commission's Own Motion to)
Implement the Biennial Resource)
Plan Update Following the)
California Energy Commission's)
Seventh Electricity Report.)

ORIGINAL

I.89-07-004

(Filed July 6, 1989)

And Related Matters.)

Application 91-02-092

Application 91-07-004

Application 91-08-028

INTERIM OPINION, RESOURCE PLAN PHASE:
SONGS 1 ACCOUNTING TREATMENT

1. Decision Summary

Today's interim opinion and order authorize Southern California Edison Company (Edison) and San Diego Gas & Electric Company (SDG&E) to begin to record certain expenditures for Unit 1 of the San Onofre Nuclear Generating Station (SONGS 1), pending our review of the cost-effectiveness of certain capital expenditures that Edison and SDG&E (80% and 20% owners of SONGS 1, respectively) have proposed. Our authorization of this accounting treatment does not prejudice the outcome of the cost-effectiveness review; this is because any costs so recorded are recoverable only if we ultimately find the proposed expenditures cost-effective.¹

¹ We anticipate rendering our decision on cost-effectiveness in February 1992.

2. Background

2.1 Edison's Application

In its current general rate case (Application (A.) 90-12-018), Edison sought to have the Commission review certain proposed capital expenditures for SONGS 1. These expenditures would serve several purposes, according to Edison. Some of these expenditures would result in increasing what Edison describes as "the routine net generating capability" of SONGS 1 from 380 megawatts (MW) to about 405 MW.

The Commission ordered that the review of the cost-effectiveness of the proposed SONGS 1 expenditures be consolidated with other resource plan issues in the Biennial Resource Plan Update. Decision (D.) 91-03-058. In compliance, Edison filed a new application (A.91-07-004) supporting its request for approval of the proposed expenditures. In the new application, Edison uses the basic type of resource plan analysis, including consideration of alternatives, that we require for all resource options under investigation in the Update. (See generally D.90-03-060 and D.91-06-022). This application is now consolidated with the Update.

2.2 SDG&E's Application

As owner of a minority interest in SONGS 1, SDG&E filed a separate application for approval of the proposed expenditures. That application (A.91-02-092) is also consolidated with the Update. On August 28, 1991, SDG&E filed an amendment to this application to comply with D.91-03-058 and the relevant decisions governing cost-effectiveness analysis in the Update.

2.3 Requested Rate Relief

The consolidation of these two applications with the Update brings into this proceeding certain ratemaking matters along with the underlying cost-effectiveness issue.

The applicants ask that their proposed SONGS 1 capital additions for fuel cycles 12 and 13 be reflected in the Plant-in-Service component of their rate base, and that they be authorized to recover the cost of those additions in rates. They ask for this to be done through an increase to their respective base rate revenue requirements, under traditional ratemaking procedures. The purpose of today's interim decision is to give appropriate accounting direction while awaiting the Commission's determination on cost-effectiveness later in the Resource Plan Phase of the Update.²

Both applicants propose in essence that they be authorized to record the increased SONGS 1 revenue requirement for 1992, 1993, and 1994 in a balancing account called the Electric Revenue Adjustment Mechanism (ERAM). The ERAM balances would then be amortized through subsequent applications in Energy Cost Adjustment Clause (ECAC) proceedings. Thus, revenue allocation and rate design matters would be handled in those proceedings.

Edison also asks that, if the effective date of the Commission approval of SONGS 1 fuel cycle 12 capital expenditures is after January 1, 1992, we authorize Edison to establish a SONGS 1 Memorandum Account effective for service rendered on or after that date. Edison witness Starck (in Exhibit 313, chapter 2, section IV) describes the workings of the proposed memorandum account:

"Edison proposes that it be authorized to record in the SONGS 1 Memorandum Account the monthly allocation of [base rate revenue] that would have been recorded in Edison's Electric Revenue Adjustment Account (ERAM Balancing Account) if the Commission adopted Edison's requested [base rate revenue] changes effective on or before

² The decision on resource plans and deferrable resources, presently planned for February 1992, will also address SONGS 1 cost-effectiveness.

January 1, 1992. Edison also requests authority to accrue interest on the average monthly balance in the SONGS 1 Memorandum Account including interest calculated at the Interest Rate set forth in Edison's ERAM tariff. Edison also proposes that the amounts recorded in the SONGS 1 Memorandum Account be made subject to adjustment to reflect the ultimately adopted ratemaking treatment for SONGS 1 Fuel Cycle 12 investment.

"Edison also requests authorization to transfer the recorded balance in the SONGS 1 Memorandum Account to Edison's ERAM Balancing Account concurrent with the effective date of the base rate changes requested by Edison....

"Establishment of a SONGS 1 Memorandum Account will place Edison's customers in the same position they would have been in had the Commission adopted the base rate treatment for SONGS 1 Fuel Cycle 12 investment effective January 1, 1992. Establishment of a SONGS 1 Memorandum Account will also allow Edison to fully recover its revenue requirement associated with SONGS 1 Fuel Cycle 12 investment if the effective date of the ratemaking treatment adopted in this proceeding is after January 1, 1992."

3. Positions of the Parties

There is no controversy regarding the soundness of the applicants' proposed ratemaking treatment, assuming that the Commission approves the proposed SONGS 1 expenditures under traditional ratemaking procedures. However, the Commission's Division of Ratepayer Advocates (DRA) disputes the cost-effectiveness of these expenditures.

DRA proposes that, if the Commission chooses to authorize these expenditures, the Commission should also authorize rate recovery under a performance-based pricing method, such as that adopted for Diablo Canyon. Under such a pricing method, the applicants' recovery of costs would be pegged to their ability to run SONGS 1 as well as, or better than, the assumptions they used

in demonstrating the cost-effectiveness of the proposed expenditures.

DRA did not expressly comment on Edison's request for a memorandum account, and no other party to the Update took a position on the ratemaking procedures proposed in the SONGS 1 applications.

4. Discussion

We authorize Edison to establish a memorandum account as described above, and we also authorize SDG&E to establish such an account. By this means, we are accommodating Edison's request for a SONGS 1 Memorandum Account in place by January 1, 1992. We also conditionally approve the use of ERAM and ECAC procedures for recovery of the proposed expenditures.

This authorization and approval is subject to our ultimate resolution of the cost-effectiveness issue, and is without prejudice to our choice of traditional or alternative ratemaking if we authorize these expenditures.

Establishment of the memorandum account accomplishes two things. First, it gives the Commission the time required to examine the SONGS 1 applications in the context of the utilities' overall resource needs, which is what originally motivated the Commission to consolidate these applications with the Update. Second, it gives the applicants assurance that they will recover all prudently incurred expenses should they prevail on the merits, without jeopardy to ratepayers should the Commission reject the applications in whole or in part.

Findings of Fact

1. Edison and SDG&E, the co-owners of SONGS 1, have proposed certain capital expenditures for that unit starting with fuel cycle 12.

2. The cost-effectiveness of the proposed expenditures is under consideration in the context of the utilities' overall resource needs being determined in the Biennial Resource Plan

Update. Commission consideration of these expenditures also involves certain ratemaking matters.

3. If these expenditures are approved, and the Commission uses traditional ratemaking procedures, then it would be reasonable to authorize the applicants to record the increased SONGS 1 revenue requirement in the ERAM and to apply for amortization of the ERAM balances in their respective ECAC proceedings.

4. Final Commission determination of the SONGS 1 cost-effectiveness and ratemaking issues is expected to occur after January 1, 1992. Pending such determination, it is reasonable to authorize Edison and SDG&E each to establish a SONGS 1 Memorandum Account, as described in Section 2.3 of the foregoing opinion.

Conclusions of Law

1. The Commission should authorize Edison and SDG&E each to establish a SONGS 1 Memorandum Account, as described in Section 2.3 of the foregoing opinion.

2. This order should take effect immediately.

INTERIM ORDER

IT IS ORDERED that:

1. Southern California Edison Company (Edison) and San Diego Gas & Electric Company (SDG&E) are each authorized to establish a SONGS 1 Memorandum Account effective for service rendered on or after January 1, 1992. They shall record in their respective memorandum accounts the monthly allocation of base rate revenue that would have been recorded in their respective Electric Revenue Adjustment Mechanism (ERAM) Accounts if the Commission had adopted before January 1, 1992, the changes to base rate revenues that SDG&E and Edison have applied for in Application (A.) 91-02-092 and A.91-07-004, respectively.

2. The memorandum accounts shall accrue interest on their respective average monthly balances, including interest calculated at the interest rate set forth in the applicable tariff of the respective utility's ERAM Account.

3. The amounts recorded in SDG&E's and Edison's SONGS 1 Memorandum Accounts are subject to adjustment to reflect the Commission's final decision in response to A.91-02-092 and A.91-07-004. With this condition, Edison and SDG&E are each authorized to transfer the recorded balance in their respective memorandum accounts to their respective ERAM Accounts concurrent with the effective date of the base rate changes sought in the above applications.

This order is effective today.

Dated December 18, 1991, at San Francisco, California.

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

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


NEAL J. SHULMAN, Executive Director