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Decision 92-05-030 May 8, 1992

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 October 17, 1991)

OPINION ON PETITION FOR MODIFICATION
OF DECISION 91-05-020

Background

By Decision (D.) 88-01-063¹ dated January 28, 1988, the Commission authorized Southern California Edison Company (Edison) to reorganize and create a holding company structure, subject to several conditions. Condition 5.e. of Ordering Paragraph 1 of D.88-01-063 requires Edison to furnish an audit of transactions with its nonutility affiliates and submit the audit as an exhibit in its next general rate case (GRC). The Division of Ratepayer Advocates (DRA) was required to select and supervise the outside auditing firm.

By D.91-05-020 dated May 8, 1991, acting on a petition for modification of D.88-01-063 filed by DRA, the Commission modified Condition 5.e. in three important respects. First, it confirmed that the "next" GRC for consideration of the audit and for determination of the need for future audits is Edison's Test Year 1992 GRC (Application (A.) 90-12-018). Second, it transferred responsibility for contractor selection and supervision to the Commission Advisory and Compliance Division (CACD). Third, it

1 27 CPUC 2d 347.

specified a completion date of July 31, 1992 for the audit report. The Commission also added the phrase "at Edison's expense" to Condition 5.e.

Edison's Petition for Modification

Edison filed a petition for modification of D.91-05-020 on October 17, 1991. Edison seeks a modification "to clarify that expenses incurred by Edison in undertaking the Commission-mandated audit are appropriate for rate recovery, and Edison will be permitted to reflect those expenses in rates." Edison states further that:

"The Commission's modification to Condition 5(e) that the Audit be undertaken at Edison's expense does not state that Edison will be authorized rate recovery of such expenses. Accordingly, Edison is hereby seeking Commission confirmation that Edison's Audit expenses will be recovered in rates."

Discussion

It is apparent that Edison filed this petition in response to the additional phrase "at Edison's expense" in Condition 5.e. In doing so, Edison has overstated the importance of this modification. D.91-05-020 did not impose a new financial requirement on the company that did not already exist.

Condition 5.e. was the product of an uncontested agreement. (D.88-01-063, p. 31.) Finding of Fact 21 of D.88-01-063 demonstrates that the Commission expected Edison to undertake responsibility for the audit:

"21. Under the proposed conditions, Edison will furnish the Commission with:"

* * *

"e. 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. The need for subsequent audits will be determined in Edison's next general rate case."

Based on this finding, the Commission adopted Condition 5.e., which is a near-copy of language of the proposed condition that Edison agreed to:

"5. Edison shall furnish the Commission with:"

* * *

"e. 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. The need for subsequent audits will be determined in Edison's next general rate case."

The only conclusion that is reasonably drawn from this language is that Edison agreed to furnish the audit at its own expense, and that the Commission ordered Edison to do so. We see no ambiguity in the language that could possibly suggest that the Commission expected the outside audit to be conducted at DRA's expense. The Commission clearly limited DRA's role to contractor selection and supervision. Since the Commission ordered Edison to furnish the audit, it obviously expected Edison to fund it.

Accordingly, our use of the phrase "at Edison's expense" in D.91-05-020 was a minor clarification which imposed no new requirement on Edison. If we were inclined to a more cynical view, we would see Edison's suggestion to the contrary as a disingenuous attempt to suggest that the Commission itself created a new basis for ratepayer funding of an audit that years earlier Edison agreed to furnish.

We note that Edison demonstrated a clearer understanding of D.88-01-063 in December 1990 when it filed A.90-12-018, its test

year 1992 GRC. Acknowledging its obligations under D.88-01-063, Edison stated:

"Pursuant to Condition No. 5(e) of D.88-01-063, DRA is in the process of selecting an accounting firm to prepare an audit of all transactions between Edison and its nonutility affiliates. The independent audit will be supervised by DRA at Edison's Expense." (A.90-12-018, p. 13; emphasis added.)

We now turn to the question of rate recovery of the audit expenses. Since Edison believes that rate recovery of the audit expenses is appropriate, we are frankly puzzled why it did not raise the issue of recovery in 1987 when it agreed to furnish the audit as a condition of our approval of its holding company proposal. In any event, the DRA petition for modification which resulted in D.91-05-020, and the decision itself, raised no ratemaking issues. A petition for modification of that decision is an inappropriate method for Edison to request rate recovery of the audit expenses. We will, therefore, dismiss the petition. In doing so, we trust that Edison remains committed to full cooperation with the CACD Project Coordinator and the outside auditing firm in fulfilling our goal of timely completion of the audit process.

Findings of Fact

1. In proceedings leading to the issuance of D.88-01-063, Edison agreed to furnish an audit of transactions with its affiliates as a condition of the Commission's approval of Edison's proposal to reorganize and create a holding company structure; the Commission then ordered Edison to furnish the audit.
2. D.88-01-063 did not authorize rate recovery of expenses that would be incurred by Edison in furnishing the audit specified in Condition 5.e.
3. It is reasonable to interpret the requirement that Edison furnish an affiliate transaction audit as a requirement that Edison provide necessary funding for the audit.

Conclusions of Law

1. Addition of the phrase "at Edison's expense" to Condition 5.e. merely clarified the existing requirement that Edison provide necessary funding for the audit; it did not materially modify the condition.
2. Edison's petition for modification should be dismissed.

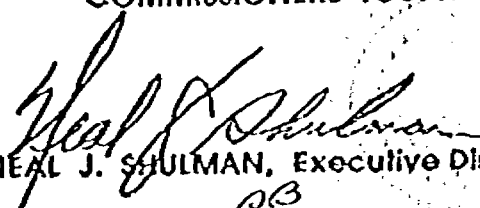
ORDER

IT IS ORDERED that:

1. Southern California Edison Company's petition for modification of Decision 91-05-020 is dismissed.
 2. This proceeding is closed.
- This order becomes effective 30 days from today.
Dated May 8, 1992, at San Francisco, California.

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

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


NEAL J. SHULMAN, Executive Director
PB

