

L/ldk

Decision 92-07-083 July 22, 1992

BEFORE THE PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

In the Matter of the Application of)
of SOUTHERN CALIFORNIA EDISON)
COMPANY (U 338-E) for Authority)
to Increase its Authorized Level)
of Base Rate Revenue Under the)
Electric Revenue Adjustment)
Mechanism for Service Rendered)
Beginning January 1, 1992 and to)
Reflect this Increase in Rates.)

And Related Matters.)

ORIGINAL

Application No. 90-12-018
(Filed December 7, 1990)

I.89-12-025
(Filed December 18, 1989)

I.91-02-079
(Filed February 21, 1991)

ORDER DENYING REHEARING

I. INTRODUCTION

D.91-12-076 (the Decision), denominated the Fourth Interim Opinion, decided Phase 1 issues in the test year 1992 general rate case (GRC) of Southern California Edison Company (SCE or Edison). The Application for Rehearing (the Application) was filed by SCE on January 23, 1992. A response was filed by the Division of Ratepayer Advocates (DRA) on February 14, 1992.

First, we note that DRA filed a Petition for Modification of D.91-12-076 on January 31, 1992 on issues which in part overlap SCE's Application. SCE filed a Response to the Petition on March 11, 1992. A Reply was filed by DRA on March 17, 1992.

We also note that San Diego Gas & Electric Company (SDG&E) has filed an Application for Rehearing of D.91-12-076, solely on the issues related to San Onofre Nuclear Generating

Station Unit 1 (SONGS 1). As will be discussed below, the resolution of the SONGS 1 issue is deferred until the disposition of a proposed settlement. This order is addressed to the Application of SCE. It also discusses the Petition of DRA and the Application of SDG&E to the extent to which they raise overlapping issues, but is intended only to resolve SCE's Application. While we will discuss the issues which overlap in these filings, DRA's petition and SDG&E's application will not be decided in this order.

We further note that Edison has filed Petitions for Modification of D.91-12-076 on March 3 and May 29, 1992. These petitions raise issues which do not overlap the issues raised in the Application and will also be decided separately.

II. DISCUSSION

The Application of SCE requests rehearing of the Decision on four issues. (Application for Rehearing, SCE, p. 1-3.) Edison alleges that the Decision erred with respect to:

- 1) The cost effectiveness of SONGS 1 cost cap;
- 2) The capitalization of software and RD&D costs;
- 3) The treatment of health care cost escalation; and
- 4) The denial of certain "minor projects."

1. SONGS 1

Edison alleges that we erred insofar as the Decision ordered task-by-task reasonableness review for SONGS 1 modifications, contrary to our previous decision, D.85-12-024. SCE maintains that the finding of reasonableness for these capital expenditures in the aggregate should be sustained.

On February 7, 1992 SCE, SDG&E and DRA submitted a joint settlement proposal regarding SONGS 1 in the Biennial Resource Plan Update (BRPU) proceeding, I.89-07-004. Consideration of that settlement proposal is still pending. The

settling parties agree that the resolution of the portion of SCE's Application related to SONGS 1 and the SDG&E application for rehearing should be deferred in favor of disposal of the proposed settlement. SCE indicated it would withdraw its Application regarding this issue, if the settlement is approved. (SCE Application, p. 2, Fn. 2.) SDG&E requested delay of action on its application until the settlement is resolved. (SDG&E Application, p. 5.) DRA refrained from responding to the SONGS 1 issue until a decision is issued on the settlement. (DRA Response, p. 1.)

Without commenting on the merits of the proposed settlement or on the merits of either SCE's or SDG&E's arguments in the event of disapproval of the settlement, we concur in the requests to delay our consideration of this issue. The proposed settlement is being reviewed elsewhere. This issue will be deferred for now to the BRPU case.

2. Capitalization of Software and RD&D Costs

Edison urges that it should be allowed to present evidence on the capitalization of 1990 and 1991 software costs, in addition to 1992 software costs. Edison proposes that Finding of Fact 165a be modified and Findings 160 and 161 be deleted. (SCE Application, pp. 14-16 and Appendix.) Edison contends that there are no problems of either retroactive ratemaking, double counting or tax consequences at stake.

DRA, in its petition for modification, opposes Edison being allowed to make any additional showing on software costs. We will address those arguments elsewhere. However, in its response to SCE's Application, DRA correctly points out that the authorization is limited to a further showing only for 1992 software costs. 1990 and 1991 software costs have already been expensed. The issue for consideration in the additional hearings is whether software costs for 1992 and forward ought to be capitalized rather than expensed.

We do not need to revisit the issues of retroactive ratemaking, double counting and tax consequences for 1990 and 1991 software costs which were considered previously in the Decision. The language of the discussion as a whole, when read together with Findings 160 and 161, 163 and 163a and Order 13, provides that it is too late to consider capitalizing 1990 and 1991 software costs. The changes offered by Edison are unnecessary and rehearing on this subject is unwarranted.

With respect to the capitalization of RD&D costs, there are two issues. First, Edison argues that it should have a chance to present evidence on all 19 RD&D project costs, not just those specified in the Decision. This has already been granted by D.92-02-002, the Order Correcting Errors, which made changes to D.91-12-076 at pages 81, 85, 213 and 221. DRA contests this in its petition for modification. DRA's objections on this matter will also be addressed elsewhere. However, SCE should now be satisfied on this point.

Last of all, Edison repeats its argument that the RD&D standards set forth in D.90-09-045 should be applied to test year 1992 RD&D expenditures. This argument was previously made in the GRC and rejected. It was disposed of at page 103 of the Decision. Edison is asking for the retroactive application of a policy not in place for this GRC cycle. There is no reason to revisit the Decision's rejection of this request.

3. Escalation of Health Care Costs

Edison alleges that we erred in adopting the same attrition year escalation rates for health care costs as for other Operating and Maintenance (O&M) expenses. Both SCE and DRA proposed health care escalation rates different from other O&M expenses, although each one calculated its proposed rates differently.

Edison argues that since we acknowledged that health care costs are increasing faster than other costs, that a separate rate should be adopted. Our reasoning was that some of

the data from which the O&M escalation rates are derived included health care costs. Therefore, a separate rate would authorize double counting of health care costs. As we stated at page 122, "If health care escalation is to be authorized separately, then the labor and nonlabor escalation factors for other costs must be adjusted to exclude the effects of health care escalation, both in weighting for health care costs and removal of health care escalation from published price indexes."

Edison points out that the actual labor escalation rate under the attrition mechanism would not include health care benefits. This does not mean that nonlabor escalation does not include health care costs.

Edison's arguments on this issue do not amount to error. This issue was fully litigated. The decision not to adopt a separate health care escalation was reasonably based on the record, which showed flaws in both Edison's and DRA's proposals.

4. Abandoned "Minor Projects"

Edison alleges that the Decision erred in denying costs for certain abandoned "minor projects." Edison argues that the standards which were articulated in previous decisions either do not apply or should not apply because they represent a change in policy. Edison is requesting that these capital costs be expensed, the reverse of the software argument, where it is requesting that expense items be capitalized.

DRA responds that the general rule of ratemaking has been to disallow the cost of plant that is not used and useful, as discussed in D.89-12-057. DRA reiterates arguments which were previously made in this case (see Exhibit 205, Chapter 11-A), that the exceptions to this rule which have been allowed, for reasonably incurred expenses during periods of great uncertainty, as per D.83-012-068 as modified by D.84-05-100, do not apply to Edison's projects.

This issue was fully litigated in the GRC. There is no error of fact or law. Edison was on notice of the previous decisions. SCE failed to meet its burden in justifying any deviation from the general rule. Now it has failed to meet its burden in demonstrating the need for rehearing.

III. CONCLUSION

The Application of SCE has failed to allege any facts or raise any legal issues which constitute error. With the exception of the SONGS 1 issue, SCE's Application for Rehearing consists primarily of reargument of the positions that it placed before us in the GRC. Having reviewed each and every argument presented in the Application, there is nothing that warrants rehearing or merits reversal or alteration of the previous Decision.

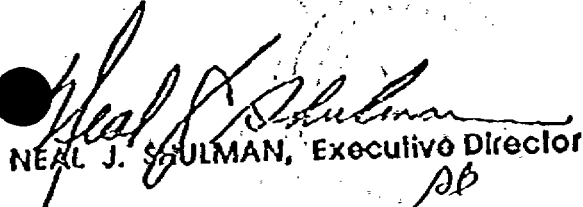
THEREFORE, for the reasons stated above, IT IS ORDERED that:

1. Disposition of the SONGS 1 issue is deferred pending the resolution of the proposed settlement in the BRPU proceeding, I.89-07-004.
2. In all other respects, the application by Edison for rehearing of D.91-12-076 is hereby denied.

This order is effective today.

Dated July 22, 1992, at San Francisco, California

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


NEAL J. SCHULMAN, Executive Director

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