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Decision 92-12-022 December 3, 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 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.	Application 90-12-018 (Filed December 7, 1990)
And Related Matters.	I.89-12-025 (Filed December 18, 1989) I.91-02-079 (Filed February 21, 1991) C.92-07-056 (Filed July 27, 1992)

(See Decision (D.) 91-12-076 and D.92-06-020 for additional appearances.)

Applicant: Stephan E. Pickett, Attorney at Law, for Southern California Edison Company (change of lead appearance).

Interested Party: Andrew Brown, for Barakat & Chamberlin, Inc. (change of appearance).

Division of Ratepayer Advocates: Alberto C. Guerrero, Attorney at Law (additional appearance).

FIFTEENTH INTERIM OPINION: PHASE 1 PETITIONS FOR MODIFICATION

1. Summary of Decision

The Authorized Level of Base Rate Revenue (ALBRR) of Southern California Edison Company (Edison) is reduced by $13.240 million to remove certain capital-related costs incorrectly included in Decision (D.) 91-12-076. The reduction is made retroactive to January 1, 1992, in accordance with Edison's intent.

Base rate changes associated with the ALBRR reduction are deferred until Edison's next scheduled rate revision.

A memorandum account for disputed capacitor costs is established, and a request for shifting of nuclear production expenses is denied.

2. Background

The Commission approved D.91-12-076 on December 20, 1991, resolving Edison's test year revenue requirement; productivity; marginal costs; research, development, and demonstration activities; demand-side management; and other Phase 1 issues.

In D.92-07-083, D.92-08-042, D.92-08-044, and D.92-11-018 the Commission resolved issues raised by Edison in an application for rehearing and by Edison and the Division of Ratepayer Advocates (DRA) in petitions for modification of D.91-12-076.

On May 29, 1992 Edison filed a second petition for modification of D.91-12-076. The assigned Administrative Law Judge (ALJ) convened a prehearing conference on August 10, 1992 to discuss the timing of the petition and Edison's policies on reporting decision errors to the Commission. Prior to the prehearing conference Edison filed a verified response to the ALJ's concerns. On September 15, 1992 Edison amended its May 29 petition to update the requested ALBRR reduction and to make one additional request.

In D.92-06-026 the Commission made the revenue requirement amounts in the May 29 petition subject to refund effective June 3, 1992.

On October 13, 1992 Edison filed a petition for modification of D.92-08-042, regarding nuclear production expenses. The May 29, September 15, and October 13, 1992 petitions are addressed in this decision.

On June 24, 1992 DRA responded to Edison's May 29 petition. No party responded to the September 15 amended petition.

On November 12, 1992 San Diego Gas & Electric Company (SDG&E) responded in support of the October 13 petition.

3. Requests by Edison

In its May 29 petition Edison requests that the Commission authorize two separate reductions to the test year ALBRR: (1) a $2.465 million reduction to remove from plant-in-service $14.255 million of capital costs for interconnection facilities used by the California Energy Company, Inc. (Cal Energy), and (2) a $12.324 million reduction to remove from plant-in-service $72.618 million of capital costs for Edison's High Voltage Direct Current Expansion Project (HVDC Project). In its September 15 amendment Edison revised the two ALBRR reductions, from $2.465 million to $2.508 million for the Cal Energy facilities and from $12.324 million to $10.732 million for the HVDC Project.

In D.90-09-059 the Commission assigned a portion of Edison's interconnection facility costs to Cal Energy. During Phase 1 hearings in the general rate case Edison requested that those capital costs be retained in rate base because Cal Energy disputed its assigned costs. In D.91-12-076 the Commission denied Edison's request for rate base treatment, and in D.92-10-028 the Commission denied Cal Energy's appeal of D.90-09-059. Edison now believes that D.91-12-076 failed to exclude from plant-in-service $14.835 million in costs assigned to Cal Energy. Edison listed an amount of $14.255 million in the Phase 1 comparison exhibit,[1] but since then it has discovered an additional $610,000 in costs embedded in the general rate case request. The 1992 jurisdictional revenue requirement associated with the $14.835 million in plant-in-service is $2.508 million.

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1 Exhibit 172, p. V-43.

In its Phase 1 rate base testimony Edison included $72.618 million of plant-in-service for the HVDC Project,[2] on the assumption the Commission would authorize base rate treatment for the project before the end of calendar year 1991. At the time of Phase 1 hearings the HVDC Project was covered by the Major Additions Adjustment Clause (MAAC) provisions in Edison's tariffs.[3] In Application (A.) 89-10-001 Edison had requested base rate treatment for the HVDC Project, and in February 1991 Edison and DRA filed a proposed settlement agreement which would resolve the issues in that proceeding. However, the Commission has not acted on the settlement, and Edison's anticipated HVDC Project rate base amounts should have been removed from the rate base approved in D.91-12-076. According to Edison this was not done, and the ALBRR should now be reduced by $10.732 million of revenue requirement associated with $72.598 million of plant costs. In its September 15 amended petition Edison reduced the plant costs by $20,000 to correct a minor error.

The September 15 amended petition contains summary of earnings tables which develop the revenue requirements for the Cal

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2 Exhibit 172, p. II-7, footnote 3; and Exhibit 122, revenue consolidation tables.

3 Under the MAAC mechanism a utility books its requested revenue requirement for a construction project into an interest-bearing deferred debit account (the MAAC account). Subaccounts identify the various projects covered by the tariff. The utility may collect revenues from customers through interim rates approved by the Commission, crediting the revenues to the MAAC account. In time the Commission reviews the reasonableness of the costs and orders necessary adjustments to the MAAC account balance to reflect any disallowances. In this way the utility earns a return on its prudently incurred capital costs during the period from the date the project is placed in service--when capitalization of interest charges must cease--until the Commission completes its reasonableness review.

Energy and HVDC Project ALBRR revisions. Those tables are summarized in Appendix A to this decision.

Edison requests that customer rates not be changed to match the revised ALBRR. Instead, rates should be allowed to overcollect by $13.240 million annually until Edison's next scheduled rate revision. Ratepayers would not be harmed because the overcollection would earn interest and would eventually be returned to customers under the Electric Revenue Adjustment Mechanism (ERAM).

In its August 3 verified response Edison stated that: (1) Edison's policy is to report material errors to the Commission, (2) an existing memorandum account for Cal Energy facilities costs will allow return of excess revenues to ratepayers, and (3) the MAAC account will allow return of excess HVDC Project revenues to ratepayers. At the August 10 prehearing conference Edison made clear its intent that excess revenues for both the Cal Energy facilities and the HVDC Project should be returned to ratepayers effective January 1, 1992.[4] According to Edison the memorandum and MAAC accounts make possible the retroactive return of revenues. Edison will not raise any retroactive ratemaking argument which might hinder the return of revenues from the beginning of the test year forward.

In the September 15 amended petition Edison added a request to leave in current rates the revenue requirement associated with $3.836 million in disputed capacitor costs. The rates would be made subject to refund, and Edison would establish a memorandum account to track the associated revenue requirement. Edison and DRA dispute whether costs of certain capacitors at Edison's Table Mountain facility are included within an $80 million cost cap imposed on the HVDC Project. The parties intend that the

4 Tr. PHC-4:148.

issue be addressed in Edison's next general rate case, but Edison recently discovered that the costs were already incurred and were included in the rate base adopted in this proceeding. Edison will voluntarily book the capacitor revenue requirement into the new memorandum account retroactive to January 1, 1992.

In its October 13 petition Edison seeks to modify D.92-08-042 regarding the separation of nuclear production expenses into "base" expenses incurred every year and refueling expenses incurred only in years when individual plant units are refueled. The test year 1992 revenue requirement would not change, but attrition year revenue requirements would change to reflect expected refueling schedules. Test year "base" expenses would be increased by $4.855 million, and refueling expenses would be reduced by a like amount. If granted, the revised separation of costs would also affect SDG&E's revenue requirement because SDG&E is part owner of Edison's San Onofre Nuclear Generating Station.

4. Response by DRA

DRA agrees with Edison that the ALBRR should be reduced to remove the costs of the Cal Energy interconnection facilities and the HVDC Project. DRA does not object to deferring the associated rate changes, but DRA is concerned about recovery of overcollections made to date.

Normally the legal principles concerning retroactive ratemaking would prohibit the refunding of utility revenues prior to June 3, the effective date of D.92-06-026, but revenue requirement for the HVDC Project has been booked into both the ERAM balancing account and the MAAC deferred debit account. ERAM account entries are not normally subject to retroactive adjustment, but MAAC account entries may be adjusted by Commission order. DRA recommends that ERAM account entries from January 1 until June 3, 1992 should be offset by crediting the MAAC account with matching amounts. This would protect ratepayers from paying for the HVDC

Project twice--once through MAAC debits and again through the ALBRR authorized in D.91-12-076.

At the August 10 prehearing conference Edison agreed with DRA that ratepayers should not pay twice for HVDC Project costs, and extended that principle to Cal Energy facility costs.

5. Discussion

We have referred the alleged technical errors in D.91-12-076 and D.92-08-042 to the Commission Advisory and Compliance Division (CACD), which produced the revenue requirement calculations appended to the Phase 1 decision.

5.1 ALBRR Reductions

CACD confirms that the capital costs of the Cal Energy interconnection facilities and the HVDC Project were incorrectly included in calculation of the adopted test year ALBRR. CACD endorses Edison's revenue requirement calculations. Edison's calculation method is not identical to the method used by CACD, but the results are reasonable for ratemaking purposes. The adopted reductions to revenue requirement are shown in Appendix A to this decision. We will reduce Edison's ALBRR by the requested $13.240 million, effective immediately.

As Edison and DRA have agreed, we will not incorporate the ALBRR reduction into rates until Edison's next scheduled rate revision. The workings of the ERAM will make ratepayers whole for any overcollections in the interim.

Overcollections for costs of the disputed Cal Energy facilities from January 1, 1992 forward have been booked into a memorandum account authorized in D.91-12-076.[5] The original intention of the memorandum account was to protect Edison if cost responsibility was transferred from Cal Energy back to Edison. In

5 Ordering Paragraph 18, at mimeo. p. 221. See also discussion at mimeo. pp. 93-94.

that circumstance Edison could have requested that the memorandum account balance be debited to the ERAM balancing account. The ratemaking situation is now changed because transfer of costs to Edison has been precluded by D.92-10-028, and Edison has discovered that the ALBRR authorized in D.91-12-076 erroneously includes the costs of the Cal Energy facilities. We accept Edison's suggestion that the memorandum account be used to protect ratepayers against overcollections from January 1, 1992 until now. We will order Edison to credit--rather than debit--the memorandum account balance to the ERAM account and terminate the memorandum account, by advice filing.

Overcollections related to the HVDC Project should be returned to ratepayers by adjustment to the MAAC account. Edison will eventually terminate MAAC account entries and may be authorized to amortize the MAAC account balance or to transfer some or all of the MAAC account balance to the ERAM balancing account for recovery from ratepayers. At that time Edison should adjust the MAAC account balance to exclude all HVDC Project amounts which have already been debited to the ERAM account through the ALBRR authorized in D.91-12-076. The adjustment should cover ERAM debits from January 1, 1992 through the date the ALBRR is reduced to remove HVDC Project costs. Rather than order that two corrections be made now--a MAAC account correction for the period from January 1 to June 3, 1992 and an ERAM account correction for the period from June 3 to the date the ALBRR is reduced--we will allow Edison to defer all corrections until the Commission reaches a decision on the HVDC Project application.

We note that the rate base amount for the HVDC Project cited by Edison in the May 29 petition ($61.303 million, total system) is lower than the amount cited in the Phase 1 comparison exhibit ($65.559 million).[6] In rate base testimony for its next general rate case Edison should properly reflect the depreciated value of the HVDC Project, not merely the rate base as shown in the May 29 petition, assuming the Commission eventually allows base rate treatment in A.89-10-001.

5.2 Capacitor Costs

We will grant Edison's request for memorandum account treatment of disputed Table Mountain capacitor costs. Ratepayers will be protected because Edison will voluntarily book into the memorandum account the associated ERAM debits incurred since January 1, 1992. This ratemaking treatment should have no impact on eventual disposition of the settlement agreement proposed in A.89-10-001. The dispute over whether the capacitor costs are covered by the HVDC Project cost cap should be heard in Edison's next general rate case, as the parties request.

5.3 Nuclear Production Expenses

Edison claims the nuclear production expenses adopted in D.91-12-076 as amended in D.92-08-042 are incorrectly separated into "base" and refueling expenses. Edison supports its claim by citing discussion language in D.91-12-076:[7]

> "To authorize base O&M and refueling O&M expense, we will escalate forward the 1987-1989 recorded expenses, then split the total into base and refueling O&M using the ratios from Edison's requested amounts. [footnote citing Exhibit 172, page IV-7]"

We will deny Edison's request. There is an error in D.91-12-076, but the error is in the discussion language, not in CACD's technical work. We will revise the decision to better reflect our intentions. Authorized "base" nuclear production

6 Exhibit 172, p. VII-3.

7 At mimeo. p. 25.

expenses are average recorded "base" expenses during the three years from 1987 through 1989, in constant dollars. Authorized refueling expenses are average recorded expenses per refueling during the same period, also in constant dollars, multiplied by the number of refuelings expected in the test year.

Findings of Fact

1. On May 29, 1992 Edison filed a petition for modification of D.91-12-076, seeking two reductions to the test year ALBRR: (1) a $2.465 million reduction to eliminate costs of interconnection facilities assigned to Cal Energy, and (2) a $12.324 million reduction to eliminate double recovery of HVDC Project costs.

2. On September 15, 1992 Edison revised the requested Cal Energy reduction from $2.465 million to $2.508 million and revised the requested HVDC Project reduction from $12.324 million to $10.732 million, making the total requested reduction $13.240 million. Edison also requests memorandum account treatment of certain disputed capacitor costs at its Table Mountain facility.

3. Edison intends that excess revenues for both the Cal Energy facilities and the HVDC Project should be removed from base rates effective January 1, 1992.

4. DRA concurs with Edison's requests for ALBRR reductions.

5. Edison's calculations of the two revenue requirement reductions are reasonable for ratemaking purposes.

6. Edison's requested ALBRR reduction of $13.240 million is reasonable and should be adopted.

7. Edison's request to defer the associated rate reduction until the next scheduled rate change is reasonable and should be adopted.

8. The workings of the ERAM will make ratepayers whole for any overcollections in the interim.

9. Overcollections for costs of the disputed Cal Energy facilities have been booked into a memorandum account authorized in D.91-12-076.

10. Cal Energy facility overcollections from January 1, 1992 to the present can and should be returned to ratepayers by crediting the memorandum account balance to the ERAM balancing account.

11. HVDC Project costs recovered through the ALBRR authorized in D.91-12-076 have also been debited to Edison's HVDC Project MAAC account.

12. HVDC Project overcollections from January 1, 1992 to the present can and should be returned to ratepayers by crediting the ERAM overcollections to the HVDC Project MAAC account at the time amortization of the approved MAAC account balance begins or when the approved balance is transferred to the ERAM balancing account and the MAAC account is terminated.

13. Edison's request for memorandum account treatment of disputed Table Mountain capacitor costs is reasonable and should be adopted.

14. On October 13, 1992 Edison filed a petition for modification of D.92-08-042, seeking a shift of $4.855 million in test year nuclear production costs from refueling expense to "base" expense.

15. The discussion of nuclear production expenses in D.91-12-076 is in error and should be revised to better reflect Commission intentions about calculation of "base" and refueling expenses.

<u>Conclusions of Law</u>

1. Edison's May 29, 1992 petition for modification of D.91-12-076, as amended on September 15, 1992, should be granted.

2. Return to ratepayers of Cal Energy facilities overcollections from January 1, 1992 to the present by crediting

the Cal Energy facilities memorandum account balance to the ERAM balancing account is not retroactive ratemaking.

3. Return to ratepayers of the HVDC Project overcollections from January 1, 1992 to the present by crediting the ERAM balancing account overcollection to the HVDC Project MAAC account is not retroactive ratemaking.

4. Establishment of a memorandum account to track the revenue requirement for disputed Table Mountain capacitor costs effective January 1, 1992 is not retroactive ratemaking.

5. Edison's October 13, 1992 petition for modification of D.92-08-042 should be denied.

6. This decision should become effective today because there are no disputes about return of the Cal Energy facility and HVDC Project overcollections to ratepayers.

FIFTEENTH INTERIM ORDER

IT IS ORDERED that:

1. The petition for modification of Decision (D.) 91-12-076 filed by Southern California Edison Company (Edison) on May 29, 1992 and amended on September 15, 1992 is granted.

2. Edison shall within 5 days of effective date of this decision file with this Commission revised tariff sheets which reduce its Authorized Level of Base Rate Revenue (ALBRR) by $13.240 million, as calculated in Appendix A to this decision.

3. The revised pages shall become effective on the date of filing and shall comply with General Order 96-A. The revised tariffs shall apply to service rendered on or after their effective date.

4. Edison shall incorporate the ALBRR reduction ordered herein, as adjusted to reflect adopted 1993 cost of capital, into its next scheduled rate revision.

5. Edison shall within 30 days of the effective date of the ALBRR reduction ordered herein transfer the balance in the California Energy Company, Inc. (Cal Energy) memorandum account as a credit to the Electric Revenue Adjustment Mechanism (ERAM) balancing account, and terminate the Cal Energy memorandum account. The ERAM credit shall cover Cal Energy overcollections during the period from January 1, 1992 through the effective date of the ALBRR reduction ordered herein. Edison shall notify the Commission of the transfer of funds by advice filing.

6. Edison shall, coincident with the eventual termination of entries to the Major Additions Adjustment Clause deferred debit account (MAAC account) for the High Voltage Direct Current Expansion Project (HVDV Project) and coincident with amortization of the MAAC account balance or transfer of the MAAC account balance to the ERAM balancing account authorized in Application 89-10-001, credit the MAAC account for all HVDC Project revenues collected under the ERAM during the period from January 1, 1992 through the effective date of the ALBRR reduction ordered herein. Edison shall notify the Commission of the MAAC account credit in any advice filing terminating the HVDC Project MAAC account or by separate advice filing.

7. Edison shall within 15 days of the effective date of this decision establish a memorandum account effective January 1, 1992 to track the revenue requirement associated with disputed Table Mountain capacitor costs.

8. The revenue requirement associated with the disputed capacitor costs is made subject to refund effective January 1, 1992.

9. The capacitor cost dispute shall be decided in Edison's test year 1995 general rate case.

10. The petition for modification of D.92-08-042 filed by Edison on October 13, 1992 is denied.

11. The last sentence of the third full paragraph on page 25 of D.91-12-076 is revised to read:

"To authorize base O&M expense, we will escalate forward the 1987-1989 average recorded expenses, including Edison's 2% real growth rate. To authorize refueling O&M expense, we will calculate the average recorded expenses for the five refuelings completed during 1987-1989, then multiply by the two refuelings expected in the test year, escalated forward including Edison's 2% real growth rate. [footnote deleted]"

This order is effective today.

Dated December 3, 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

APPENDIX A

SOUTHERN CALIFORNIA EDISON COMPANY
Test Year 1992
ADOPTED SUMMARY OF EARNINGS - CPUC Jurisdiction
(Thousands of 1992 Dollars)

Description	Cal Energy Interconnection Facilities	HVDC Project
Operating Revenues	2,508	10,732
Operating Expenses		
Production	0	0
Transmission	0	0
Distribution	0	0
Customer Accounts	0	0
Uncollectibles	5	22
Customer Service & Information	0	0
Administrative & General	0	0
Franchise Fees	20	85
Sales Tax Increase	0	0
Revenue Credits	0	0
Subtotal	25	107
Depreciation	443	1,174
Taxes Other Than Income	152	767
Taxes on Income	502	2,161
Total Operating Expenses	1,122	4,209
Net Operating Revenue	1,387	6,523
Rate Base	13,102	61,592
Rate of Return	10.59%	10.59%

(END OF APPENDIX A)