

JUL 17 1997

Decision 97-07-053 July 16, 1997

BEFORE THE PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

ORIGINAL

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, 1995 and to Reflect this Increase in Rates.

Application 93-12-025
(Filed December 27, 1993)

Order Instituting Investigation into the Rates, Charges, and Practices of SOUTHERN CALIFORNIA EDISON COMPANY, Establishment of the Utility's Revenue Requirement, and Attrition Request.

194-02-002
(Filed February 3, 1994)

**OPINION ON SOUTHERN CALIFORNIA EDISON COMPANY'S
PETITION FOR MODIFICATION OF
DECISION 96-01-011 AND DECISION 96-04-059**

Summary

On February 19, 1997, Southern California Edison Company (Edison) filed an Amended Petition for Modification of Decision (D.) 96-01-011 and D.96-04-059. In its petition, Edison seeks to add approximately \$18.7 million of sunk costs associated with San Onofre Nuclear Generating Station (SONGS) step-up transformers to SONGS sunk costs. This decision grants Edison's Amended Petition for Modification.

I. Background

In D.96-01-011, Edison's Phase 1&3 Rate Case Decision, we addressed, among other things, Edison, San Diego Gas & Electric Company (SDG&E), and the Division of Ratepayer Advocates' (DRA, predecessor to the Office of Ratepayer Advocates (ORA))

settlement of Phase 1&3 issues.¹ The settlement of the Phase 3 issues consisted of a proposed ratemaking treatment for SONGS 2&3. We found that on key elements of the Phase 3 portion of the settlement, the only parties in support were Edison and SDG&E. In D.96-01-011, we found merit with Edison and SDG&E's conceptual framework regarding their proposed ratemaking treatment for SONGS 2&3, although we had concerns with particular aspects that we believed were inconsistent with the law and not in the public interest. We adopted guidelines which changed the Edison and SDG&E proposal, and allowed the two utilities, and subsequently other parties, to respond. In D.96-04-059, we adopted a ratemaking treatment proposal for SONGS 2&3 as more fully set out in that decision.

On April 19, 1996, Edison, Pacific Gas and Electric Company (PG&E), and SDG&E jointly filed a request with the Federal Energy Regulatory Commission (FERC) requesting the FERC to confirm the delineation of certain facilities as "local distribution" (subject to state regulation) and certain other facilities as "transmission" (subject to FERC jurisdiction).² In its Amended Petition, Edison states that it proposed to the FERC to classify SONGS step-up transformers³ as transmission. This is because when Edison separated generation from transmission-related facilities at SONGS in late 1994 in the context of its general rate case, Edison believed that classification of the transformers as transmission was consistent with the generally accepted interpretation of FERC Uniform System of Accounts.

On August 14, 1996, the Commission filed Supplemental Comments on this matter with FERC. The Commission believed that the SONGS step-up transformers

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should be correctly categorized as generation, notwithstanding Edison's reliance on the traditional regulatory treatment of such costs as transmission in entering into the SONGS proposal.¹ Rather, in order to properly classify the step-up transformers in an equitable manner, the Commission stated that it encouraged and would allow Edison to petition the Commission to reopen D.96-01-011 and D.96-04-059 for the limited purpose of including the SONGS step-up transformers for cost recovery.

On October 30, 1996, FERC issued an Order Granting Petition for Declaratory Order In Part and agreed with the Commission's classifications. That is, according to FERC, the SONGS step-up transformers should be classified as generation. (See Order Granting Petition for Declaratory Order In Part, 77 FERC § 61,077 (1996), pp. 61, 321 and 61,325.)

On February 19, 1997, Edison filed this Amended Petition for Modification. ORA and The Utility Reform Network (TURN) filed timely responses thereto.

II. Parties' Positions

By this petition, Edison specifically requests that it be allowed to include the costs of the SONGS step-up transformers in the SONGS sunk costs, which are presently subject to accelerated recovery at a reduced rate of return, pursuant to D.96-01-011 and D.96-04-059. Edison requests that the Commission transfer Edison's net recorded investment in SONGS step-up transformers as of the effective date of a Commission decision on this petition, to SONGS sunk costs for recovery by December 31, 2001, at a reduced rate of return on 7.35%, consistent with all other SONGS sunk costs. Edison states that as of December 31, 1996, its net recorded investment in SONGS step-up

¹ In its comments, the Commission also recognized that even Edison now believed that the proper categorization of the step-up transformers is generation. (August 14, 1996 Supplemental Comments of the Public Utilities Commission of the State of California in FERC Docket No. EL96-48-000 (Commission Supplemental Comments) at p. 5.)

transformers is \$18.7 million. Edison also states that it will exclude these costs in its transmission revenue requirement when it files its FERC rate case.⁵

Edison believes that this amended petition is consistent with the Commission's comments to FERC set forth above, as well as with Assembly Bill 1890, which provides for accelerated recovery of certain generation-related costs by December 31, 2001 at a reduced rate of return.

ORA protested the amended petition. ORA believes that Edison's amended petition seeks to skew the balance of allocated risks and benefits of the proposal adopted in D.96-04-059 by passing a generation cost increase to Edison's customers, while continuing to retain the benefit of all SONGS generation cost decreases for its shareholders. ORA states that placing Edison at risk for SONGS generation cost changes meant that Edison stood to realize profit or loss. ORA points to the fact that Edison is currently seeking a reduction in environmental requirements associated with SONGS from the California Coastal Commission. If successful, Edison's shareholders will profit from a reduction in these costs, since Edison will continue to recover the environmental costs from ratepayers even though the costs are no longer being incurred. Thus, ORA argues that it is not inconsistent or unfair that under the overall scheme for the allocation of risk under D.96-01-011, Edison might not be able to recover costs that are incurred for the step-up transformers. ORA also notes that Edison has to date profited from the terms of the SONGS ratemaking mechanism in that its other SONGS generation costs have been significantly lower than the costs assumed by the Commission in adopting D.96-01-011 and D.94-04-059.

⁵ Edison states its interest in filing this amended petition is to transfer only the recorded balance for SONGS step-up transformers to the SONGS sunk costs as of the effective date of the Commission's decision on this petition. Any depreciation recovered before the effective date would be deducted from the amount added to SONGS sunk costs. In that respect, Edison suggests the true-up for additional depreciation be reflected in an Advice Letter filing within 30 days of the effective date of a decision on this amended petition, consistent with the compliance requirements contained in D.96-04-059.

Finally, ORA advocates that if the Commission grants Edison's amended petition, it further modify the SONGS ratemaking mechanism to reflect SONGS cost decreases which have also occurred since the adoption of D.96-01-011, which ORA defines as a process similar to that adopted by the Commission in D.96-12-083 for Edison's share of the Palo Verde Nuclear Generating Station costs.

TURN also filed a response in opposition to the amended petition. TURN states that the SONGS ratemaking mechanism was adopted as a performance incentive mechanism with the intention of assigning certain risks to the utility that it might not have borne under traditional regulation. Therefore, TURN submits that any risk arising from the definition of SONGS-related sunk costs adopted in the joint proposal and ultimately embraced by the Commission in D.96-04-059 was assigned to the utility.

TURN states it has also recently become aware of steps that Edison is taking at the SONGS plant that are expected to increase the output of SONGS 2&3 by more than 50 megawatts. TURN alleges that this increase is due to Edison's repair of the steam turbines at SONGS 2&3. TURN argues that under the SONGS mechanism adopted by the Commission, the tradeoff between risk and reward under traditional regulation was substantially modified. In return for assuming a greater amount of the risk associated with the SONGS plant, Edison could achieve greater benefits due to increased operating efficiency. Therefore, TURN argues that if the Commission grants Edison's amended petition, it should also modify the treatment of any efficiencies achieved at the plant that might allow Edison to operate it at higher capacity factors than those assumed in setting the Incremental Cost Incentive Pricing Mechanism adopted in D.96-04-059. TURN also does not believe that the issue Edison raises in its amended petition is appropriately characterized as a compliance issue with FERC and Commission directive.

In response to ORA and TURN, Edison states that, when it accepted the Commission's modifications of the SONGS 2&3 proposal, it did not assume the risk of failing to recover the remaining investment in the SONGS 2&3 step-up transformers, which was then properly categorized as a transmission-related asset. Moreover, Edison believes that if the recovery it requests in its amended petition is granted, it will

not upset the carefully crafted balance of risks and rewards in the SONGS 2&3 Rate Mechanism. This is so, largely because the transfer of this investment into SONGS 2&3 sunk investment will not increase the SONGS 2&3 amortization amount above the \$2.68 billion cap agreed to by ORA.⁴ Edison also explains that recovery of the SONGS 2&3 step-up transformers investment will not increase rates because Assembly Bill 1890 froze rates at June 10, 1996 levels.

In response to TURN, Edison also believes that there is no link between what it believes to be needed replacement of steam turbine components at SONGS 2&3 and continued recovery of the SONGS 2&3 step-up transformers investment. In response to ORA, Edison does not believe that adoption of Palo Verde ratemaking treatment is appropriate for SONGS. Edison believes that since it is the majority participant and operating agent at SONGS 2&3 (unlike Palo Verde), Commission-adopted incentives can properly affect performance.

III. Discussion

In the Commission's August 14, 1996 Supplemental Comments before FERC in FERC Docket EL96-48-000, the Commission was concerned that the step-up transformers be classified correctly. However, the Commission was also concerned that this classification be done in an equitable manner. Therefore, it stated that it encouraged and would allow Edison to petition the Commission to reopen D.96-01-011 and D.96-04-059 for the limited purpose of including the SONGS step-up transformers for cost recovery. In the Supplemental Comments, the Commission specifically stated:

⁴ Edison explains that the Settlement Agreement filed in Application 93-12-025 at Section 4.3.1.2 capped SONGS 2&3 sunk costs without the SONGS 2&3 step-up transformers at recorded costs of no more than \$2.68 billion as of February 1, 1996. Edison explains that recorded SONGS 2&3 sunk costs subject to accelerated recovery under D.96-04-059 are \$2.63 billion. When the \$18.7 million SONGS 2&3 step-up transformers investment is added to the \$2.63 billion SONGS 2&3 sunk investment amortized pursuant to D.96-04-059, the total is about \$2.65 billion, which is still below the \$2.68 billion cap.

"Edison apparently has chosen to seek to classify these assets as transmission related because of a mistaken impression that if it did otherwise it may not be able to recover the cost of these assets. In CPUC decisions D.96-01-011 and D.96-04-059, the CPUC established the ratemaking treatment and cost recovery of all of the generation-related assets of the SONGS power plant excluding the step-up transformers and switchyard equipment. Edison appears to believe that if it does not recover the costs of these assets in transmission rates it will be unable to collect them from the CPUC. This is incorrect. These assets should be classified as generation and Edison should seek recovery of these costs in the same manner as all other SONGS related generation costs. Accordingly, the CPUC encourages and will allow Edison to petition to reopen D.96-01-011 and D.96-04-059 for the limited purpose of including these assets for cost recovery. There are several advantages to this approach, including: consistent application of FERC guidelines; ensuring a 'level playing field' between all generators in terms of cost responsibility; and promoting efficiency by ensuring that transmission rates reflect only actual transmission-related costs. For these reasons, Edison's SONGS related generation costs should not be included in the facilities designated as transmission." (Commission Supplemental Comments at pp. 5-6.)

The Commission's Supplemental Comments to FERC focused on the appropriate classification of the step-up transformers in order to ensure that transmission rates reflect only transmission-related costs. However, the Commission made clear it did not believe that the categorization of the step-up transformers as generation should preclude Edison from recovering these costs. In light of the Commission's Supplemental Comments which "encouraged" and "would allow" Edison to file this amended petition, the Commission grants Edison's amended petition as more fully set forth in the Ordering Paragraphs of this decision.

In its Supplemental Comments to FERC, the Commission stated it encouraged and would allow Edison to reopen D.96-01-011 and D.96-04-059 *for the limited purpose of* including the costs of the step-up transformers for cost recovery. In light of these comments, we do not reopen this proceeding in the context of the amended petition to address other issues at this time. Nothing in this decision precludes ORA or TURN from raising their issues in a different forum or vehicle. For example, TURN raises an issue with respect to SONGS output in connection with Edison's repair of the steam

turbines in the Transition Cost proceeding, which proceeding flows from our Electric Industry Restructuring proceeding. That issue should be addressed in the Transition Cost proceeding.

In order to implement this decision, Edison should remove the most recently adopted revenue requirement associated with SONGS step-up transformer costs (including costs associated with both the transformers and the rack-to-bank leads with associated structures) from the currently authorized base rate revenue requirement. Edison should add its SONGS step-up transformer sunk costs, recorded as of the effective date of this decision on the amended petition, to its SONGS 2&3 sunk costs and should recover them in a manner consistent with all other SONGS 2&3 sunk costs. This ratemaking should be implemented consistent with Assembly Bill 1890.

Edison should deduct any depreciation recovered before the effective date of this decision from the amount of step-up transformers costs added to SONGS sunk costs. No later than 30 days after the effective date of this decision, Edison should file an advice letter which trues-up SONGS step-up transformer costs by deducting all depreciation recovered before the effective date of this decision from SONGS step-up transformer costs.

Findings of Fact

1. On February 19, 1997, Edison filed its Amended Petition for Modification of D.96-01-011 and D.96-04-059. The amended petition seeks to add approximately \$18.7 million of sunk costs associated with SONGS step-up transformers to SONGS sunk costs, and is opposed by ORA and TURN.

2. On April 19, 1996, Edison, PG&E, and SDG&E jointly filed with FERC a request that FERC confirm the delineation of certain facilities as "local distribution" (subject to state regulation) and certain other facilities as "transmission" (subject to FERC jurisdiction). Edison proposed to the FERC to classify its SONGS step-up transformers as transmission.

3. On August 14, 1996, the Commission filed Supplemental Comments with FERC stating that the SONGS step-up transformers should be correctly categorized as

generation, notwithstanding Edison's reliance on the traditional regulatory treatment of such costs as transmission in entering into the SONGS settlement at the Commission. In order to properly classify the step-up transformers in an equitable manner, the Commission stated in its FERC Supplemental Comments that it encouraged and would allow Edison to petition the Commission to reopen D.96-01-011 and D.96-04-059 for the limited purpose of including the SONGS step-up transformer for cost recovery.

4. On October 30, 1996, FERC issued an order which, in relevant part, agreed with the Commission that the SONGS step-up transformers should be classified as generation.

5. According to Edison, as of December 31, 1996, its net recorded investment in SONGS step-up transformers is \$18.7 million. This amount may decrease because any depreciation which Edison recovers before the effective date of this decision would be deducted from the amount added to SONGS sunk costs.

Conclusions of Law

1. In light of the Commission's Supplemental Comments to FERC which "encouraged" and "would allow" Edison to file this amended petition, it is reasonable to grant Edison's Amended Petition for Modification of D.96-01-011 and D.96-04-059 as more fully set forth in the Ordering Paragraphs of this decision.

2. In light of the Commission's Supplemental Comments to FERC, which spoke in terms of certain decisions being reopened for the limited purpose of addressing the step-up transformer costs, this proceeding should not be reopened in the context of this amended petition to address other issues at this time.

3. Edison should remove the most recently adopted revenue requirement associated with SONGS step-up transformer costs (including costs associated with both the transformers and the rack-to-bank leads with associated structures) from the currently authorized base rate revenue requirement. Edison should add its SONGS step-up transformer sunk costs, recorded as of the effective date of this decision on the amended petition, to its SONGS 2&3 sunk costs and should recover them in a manner

consistent with all other SONGS 2&3 sunk costs. This ratemaking should be implemented consistent with Assembly Bill 1890.

4. Edison should deduct any depreciation recovered before the effective date of this decision from the amount of step-up transformer costs added to SONGS sunk costs. No later than 30 days after the effective date of this decision, Edison should file an advice letter which would true-up SONGS step-up transformer costs by deducting all depreciation recovered before the effective date of this decision from SONGS step-up transformer costs.

5. Nothing in this decision precludes ORA or TURN from raising other SONGS 2&3 issues in a different forum or vehicle, and we are neither approved nor rejecting their issues at this time.

6. In order to implement this modification promptly, this decision should be effective immediately.

O R D E R

IT IS ORDERED that:

1. Southern California Edison Company's (Edison) February 19, 1997 Amended Petition for Modification of Decision (D.) 96-01-011 and D.96-04-059 is granted, as more fully set forth in these ordering paragraphs.

2. Conclusion of Law 5(a) should be added to D.96-01-011 as follows:

"SONGS step-up transformers, which include both the transformers and the rack-to-bank leads with associated structures, should be subject to the same accelerated recovery as other SONGS 2&3 sunk costs under the terms set forth in the Commission's decision on Edison's Petition for Modification of D.96-01-011 and D.96-04-059."

3. The following sentence should be inserted in Ordering Paragraph 4 of D.96-01-011 after the third sentence:

"The SONGS 2&3 sunk costs in the revised proposal should include Edison's net investment in the SONGS step-up transformers as of the effective date of the decision on Edison's Amended Petition for Modification of D.96-01-011 and D.96-04-059."

4. Section 3.10 should be added to the discussion of D.96-04-059 as follows:

"3.10 Addition to SONGS 2&3 Sunk Costs for Investment in SONGS Transformers"

Pursuant to the Commission's decision addressing Edison's Amended Petition for Modification of D.96-01-011 and D.96-04-059, SONGS step-up transformers sunk costs, which include the sunk costs associated with both the transformers and the rack-to-bank leads with associated structures, recorded as of the effective date of the decision on Edison's amended petition, should be added to SONGS 2&3 sunk costs and recovered in a manner consistent with all other SONGS 2&3 sunk costs as set forth in this decision."

5. The following Conclusions of Law 13 and 14 should be added to D.96-04-059:

"13. SONGS step-up transformers are generation-related facilities that should be subject to the same accelerated recovery as other SONGS 2&3 sunk costs.

"14. Edison should not include costs of SONGS step-up transformers in its transmission revenue requirement at FERC."

6. Ordering Paragraph 7 should be added to the Ordering Paragraphs of D.96-04-059 as follows:

"7. Edison shall remove the most recently adopted revenue requirement associated with SONGS step-up transformers costs (including costs associated with both the transformers and the rack-to-bank leads with associated structures) from the currently authorized base rate revenue requirement. Edison shall add its SONGS step-up transformer sunk costs, recorded as of the effective date of the decision on Edison's Amended Petition for Modification of D.96-01-011 and D.96-04-059, to its SONGS 2&3 sunk costs and should recover them in a manner consistent with all other SONGS sunk costs. This ratemaking shall be consistent with Assembly Bill 1890."

7. In order to conform Edison and San Diego Gas & Electric Company's Joint Response to D.96-01-011 with this order, the following text should be added to the Joint

Response. The following two sentences should be added to the end of Section 4.2.2 (a) on page 15:

"The plant-in-service amount to be amortized shall be increased to include approximately \$27.1 million of sunk costs associated with SONGS step-up transformers and the accumulated depreciation amount shall be increased to include approximately \$8.4 million of accumulated depreciation related to the SONGS step-up transformers. These amounts are the recorded values as of December 31, 1996, and shall be updated as of the effective date of the decision on Edison's Amended Petition for Modification of D.96-01-011 and D.96-04-059, dated February 19, 1997, in an implementing advice filing setting forth actual recorded values."

Section 4.6.5 should be added to the Joint Response as follows:

"4.6.5 Edison shall remove the most recently adopted revenue requirement associated with SONGS step-up transformers costs (including costs associated with both the transformers and the rack-to-bank leads with associated structures) from the currently authorized base rate revenue requirement. Edison shall add its SONGS step-up transformer sunk costs, recorded as of the effective date of the decision on Edison's Amended Petition for Modification of D.96-01-011 and D.96-04-059, to its SONGS 2&3 sunk costs and should recover them in a manner consistent with all other SONGS 2&3 sunk costs. This ratemaking shall be implemented consistent with Assembly Bill 1890."

8. Edison shall deduct any depreciation recovered before the effective date of this decision from the amount of step-up transformers costs added to SONGS sunk costs. No later than 30 days after the effective date of this decision, Edison shall file an advice letter which would true-up SONGS step-up transformer costs by deducting all depreciation recovered before the effective date of this decision from SONGS step-up transformer costs.

This order is effective today.

Dated July 16, 1997, at San Francisco, California.

P. GREGORY CONLON

President

JESSIE J. KNIGHT, JR.

HENRY M. DUQUE

JOSIAH L. NEEPER

RICHARD A. BILAS

Commissioners

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TURN states it has also recently become aware of steps that Edison is taking at the SONGS plant that are expected to increase the output of SONGS 2&3 by more than 50 megawatts. TURN alleges that this increase is due to Edison's repair of the steam turbines at SONGS 2&3. TURN argues that under the SONGS mechanism adopted by the Commission, the tradeoff between risk and reward under traditional regulation was substantially modified. In return for assuming a greater amount of the risk associated with the SONGS plant, Edison could achieve greater benefits due to increased operating efficiency. Therefore, TURN argues that if the Commission grants Edison's amended petition, it should also modify the treatment of any efficiencies achieved at the plant that might allow Edison to operate it at higher capacity factors than those assumed in setting the Incremental Cost Incentive Pricing Mechanism adopted in D.96-04-059. TURN also does not believe that the issue Edison raises in its amended petition is appropriately characterized as a compliance issue with FERC and Commission directive.

In response to ORA and TURN, Edison states that, when it accepted the Commission's modifications of the SONGS 2&3 proposal, it did not assume the risk of failing to recover the remaining investment in the SONGS 2&3 step-up transformers, which was then properly categorized as a transmission-related asset. Moreover, Edison believes that if the recovery it requests in its amended petition is granted, it will

not upset the carefully crafted balance of risks and rewards in the SONGS 2&3 Rate Mechanism. This is so, largely because the transfer of this investment into SONGS 2&3 sunk investment will not increase the SONGS 2&3 amortization amount above the \$2.68 billion cap agreed to by ORA.⁴ Edison also explains that recovery of the SONGS 2&3 step-up transformers investment will not increase rates because Assembly Bill 1890 froze rates at June 10, 1996 levels.

In response to TURN, Edison also believes that there is no link between what it believes to be needed replacement of steam turbine components at SONGS 2&3 and continued recovery of the SONGS 2&3 step-up transformers investment. In response to ORA, Edison does not believe that adoption of Palo Verde ratemaking treatment is appropriate for SONGS. Edison believes that since it is the majority participant and operating agent at SONGS 2&3 (unlike Palo Verde), Commission-adopted incentives can properly affect performance.

III. Discussion

In the Commission's August 14, 1996 Supplemental Comments before FERC in FERC Docket EL96-48-000, the Commission was concerned that the step-up transformers be classified correctly. However, the Commission was also concerned that this classification be done in an equitable manner. Therefore, it stated that it encouraged and would allow Edison to petition the Commission to reopen D.96-01-011 and D.96-04-059 for the limited purpose of including the SONGS step-up transformers for cost recovery. In the Supplemental Comments, the Commission specifically stated:

⁴ Edison explains that the Settlement Agreement filed in Application 93-12-025 at Section 4.3.1.2 capped SONGS 2&3 sunk costs without the SONGS 2&3 step-up transformers at recorded costs of no more than \$2.68 billion as of February 1, 1996. Edison explains that recorded SONGS 2&3 sunk costs subject to accelerated recovery under D.96-04-059 are \$2.63 billion. When the \$18.7 million SONGS 2&3 step-up transformers investment is added to the \$2.63 billion SONGS 2&3 sunk investment amortized pursuant to D.96-04-059, the total is about \$2.65 billion, which is still below the \$2.68 billion cap.

"Edison apparently has chosen to seek to classify these assets as transmission related because of a mistaken impression that if it did otherwise it may not be able to recover the cost of these assets. In CPUC decisions D.96-01-011 and D.96-04-059, the CPUC established the ratemaking treatment and cost recovery of all of the generation-related assets of the SONGS power plant excluding the step-up transformers and switchyard equipment. Edison appears to believe that if it does not recover the costs of these assets in transmission rates it will be unable to collect them from the CPUC. This is incorrect. These assets should be classified as generation and Edison should seek recovery of these costs in the same manner as all other SONGS related generation costs. Accordingly, the CPUC encourages and will allow Edison to petition to reopen D.96-01-011 and D.96-04-059 for the limited purpose of including these assets for cost recovery. There are several advantages to this approach, including: consistent application of FERC guidelines; ensuring a 'level playing field' between all generators in terms of cost responsibility; and promoting efficiency by ensuring that transmission rates reflect only actual transmission-related costs. For these reasons, Edison's SONGS related generation costs should not be included in the facilities designated as transmission." (Commission Supplemental Comments at pp. 5-6.)

The Commission's Supplemental Comments to FERC focused on the appropriate classification of the step-up transformers in order to ensure that transmission rates reflect only transmission-related costs. However, the Commission made clear it did not believe that the categorization of the step-up transformers as generation should preclude Edison from recovering these costs. In light of the Commission's Supplemental Comments which "encouraged" and "would allow" Edison to file this amended petition, the Commission grants Edison's amended petition as more fully set forth in the Ordering Paragraphs of this decision.

In its Supplemental Comments to FERC, the Commission stated it encouraged and would allow Edison to reopen D.96-01-011 and D.96-04-059 *for the limited purpose of* including the costs of the step-up transformers for cost recovery. In light of these comments, we do not reopen this proceeding in the context of the amended petition to address other issues at this time. Nothing in this decision precludes ORA or TURN from raising their issues in a different forum or vehicle. For example, TURN raises an issue with respect to SONGS output in connection with Edison's repair of the steam

turbines in the Transition Cost proceeding, which proceeding flows from our Electric Industry Restructuring proceeding. That issue should be addressed in the Transition Cost proceeding.

In order to implement this decision, Edison should remove the most recently adopted revenue requirement associated with SONGS step-up transformer costs (including costs associated with both the transformers and the rack-to-bank leads with associated structures) from the currently authorized base rate revenue requirement. Edison should add its SONGS step-up transformer sunk costs, recorded as of the effective date of this decision on the amended petition, to its SONGS 2&3 sunk costs and should recover them in a manner consistent with all other SONGS 2&3 sunk costs. This ratemaking should be implemented consistent with Assembly Bill 1890.

Edison should deduct any depreciation recovered before the effective date of this decision from the amount of step-up transformers costs added to SONGS sunk costs. No later than 30 days after the effective date of this decision, Edison should file an advice letter which trues-up SONGS step-up transformer costs by deducting all depreciation recovered before the effective date of this decision from SONGS step-up transformer costs.

Findings of Fact

1. On February 19, 1997, Edison filed its Amended Petition for Modification of D.96-01-011 and D.96-04-059. The amended petition seeks to add approximately \$18.7 million of sunk costs associated with SONGS step-up transformers to SONGS sunk costs, and is opposed by ORA and TURN.

2. On April 19, 1996, Edison, PG&E, and SDG&E jointly filed with FERC a request that FERC confirm the delineation of certain facilities as "local distribution" (subject to state regulation) and certain other facilities as "transmission" (subject to FERC jurisdiction). Edison proposed to the FERC to classify its SONGS step-up transformers as transmission.

3. On August 14, 1996, the Commission filed Supplemental Comments with FERC stating that the SONGS step-up transformers should be correctly categorized as

generation, notwithstanding Edison's reliance on the traditional regulatory treatment of such costs as transmission in entering into the SONGS settlement at the Commission. In order to properly classify the step-up transformers in an equitable manner, the Commission stated in its FERC Supplemental Comments that it encouraged and would allow Edison to petition the Commission to reopen D.96-01-011 and D.96-04-059 for the limited purpose of including the SONGS step-up transformer for cost recovery.

4. On October 30, 1996, FERC issued an order which, in relevant part, agreed with the Commission that the SONGS step-up transformers should be classified as generation.

5. According to Edison, as of December 31, 1996, its net recorded investment in SONGS step-up transformers is \$18.7 million. This amount may decrease because any depreciation which Edison recovers before the effective date of this decision would be deducted from the amount added to SONGS sunk costs.

Conclusions of Law

1. In light of the Commission's Supplemental Comments to FERC which "encouraged" and "would allow" Edison to file this amended petition, it is reasonable to grant Edison's Amended Petition for Modification of D.96-01-011 and D.96-04-059 as more fully set forth in the Ordering Paragraphs of this decision.

2. In light of the Commission's Supplemental Comments to FERC, which spoke in terms of certain decisions being reopened for the limited purpose of addressing the step-up transformer costs, this proceeding should not be reopened in the context of this amended petition to address other issues at this time.

3. Edison should remove the most recently adopted revenue requirement associated with SONGS step-up transformer costs (including costs associated with both the transformers and the rack-to-bank leads with associated structures) from the currently authorized base rate revenue requirement. Edison should add its SONGS step-up transformer sunk costs, recorded as of the effective date of this decision on the amended petition, to its SONGS 2&3 sunk costs and should recover them in a manner

consistent with all other SONGS 2&3 sunk costs. This ratemaking should be implemented consistent with Assembly Bill 1890.

4. Edison should deduct any depreciation recovered before the effective date of this decision from the amount of step-up transformer costs added to SONGS sunk costs. No later than 30 days after the effective date of this decision, Edison should file an advice letter which would true-up SONGS step-up transformer costs by deducting all depreciation recovered before the effective date of this decision from SONGS step-up transformer costs.

5. Nothing in this decision precludes ORA or TURN from raising other SONGS 2&3 issues in a different forum or vehicle, and we are neither approved nor rejecting their issues at this time.

6. In order to implement this modification promptly, this decision should be effective immediately.

O R D E R

IT IS ORDERED that:

1. Southern California Edison Company's (Edison) February 19, 1997 Amended Petition for Modification of Decision (D.) 96-01-011 and D.96-04-059 is granted, as more fully set forth in these ordering paragraphs.

2. Conclusion of Law 5(a) should be added to D.96-01-011 as follows:

"SONGS step-up transformers, which include both the transformers and the rack-to-bank leads with associated structures, should be subject to the same accelerated recovery as other SONGS 2&3 sunk costs under the terms set forth in the Commission's decision on Edison's Petition for Modification of D.96-01-011 and D.96-04-059."

3. The following sentence should be inserted in Ordering Paragraph 4 of D.96-01-011 after the third sentence:

"The SONGS 2&3 sunk costs in the revised proposal should include Edison's net investment in the SONGS step-up transformers as of the effective date of the decision on Edison's Amended Petition for Modification of D.96-01-011 and D.96-04-059."

4. Section 3.10 should be added to the discussion of D.96-04-059 as follows:

"3.10 Addition to SONGS 2&3 Sunk Costs for Investment in SONGS Transformers"

Pursuant to the Commission's decision addressing Edison's Amended Petition for Modification of D.96-01-011 and D.96-04-059, SONGS step-up transformers sunk costs, which include the sunk costs associated with both the transformers and the rack-to-bank leads with associated structures, recorded as of the effective date of the decision on Edison's amended petition, should be added to SONGS 2&3 sunk costs and recovered in a manner consistent with all other SONGS 2&3 sunk costs as set forth in this decision."

5. The following Conclusions of Law 13 and 14 should be added to D.96-04-059:

"13. SONGS step-up transformers are generation-related facilities that should be subject to the same accelerated recovery as other SONGS 2&3 sunk costs.

"14. Edison should not include costs of SONGS step-up transformers in its transmission revenue requirement at FERC."

6. Ordering Paragraph 7 should be added to the Ordering Paragraphs of D.96-04-059 as follows:

"7. Edison shall remove the most recently adopted revenue requirement associated with SONGS step-up transformers costs (including costs associated with both the transformers and the rack-to-bank leads with associated structures) from the currently authorized base rate revenue requirement. Edison shall add its SONGS step-up transformer sunk costs, recorded as of the effective date of the decision on Edison's Amended Petition for Modification of D.96-01-011 and D.96-04-059, to its SONGS 2&3 sunk costs and should recover them in a manner consistent with all other SONGS sunk costs. This ratemaking shall be consistent with Assembly Bill 1890."

7. In order to conform Edison and San Diego Gas & Electric Company's Joint Response to D.96-01-011 with this order, the following text should be added to the Joint

Response. The following two sentences should be added to the end of Section 4.2.2 (a) on page 15:

"The plant-in-service amount to be amortized shall be increased to include approximately \$27.1 million of sunk costs associated with SONGS step-up transformers and the accumulated depreciation amount shall be increased to include approximately \$8.4 million of accumulated depreciation related to the SONGS step-up transformers. These amounts are the recorded values as of December 31, 1996, and shall be updated as of the effective date of the decision on Edison's Amended Petition for Modification of D.96-01-011 and D.96-04-059, dated February 19, 1997, in an implementing advice filing setting forth actual recorded values."

Section 4.6.5 should be added to the Joint Response as follows:

"4.6.5 Edison shall remove the most recently adopted revenue requirement associated with SONGS step-up transformers costs (including costs associated with both the transformers and the rack-to-bank leads with associated structures) from the currently authorized base rate revenue requirement. Edison shall add its SONGS step-up transformer sunk costs, recorded as of the effective date of the decision on Edison's Amended Petition for Modification of D.96-01-011 and D.96-04-059, to its SONGS 2&3 sunk costs and should recover them in a manner consistent with all other SONGS 2&3 sunk costs. This ratemaking shall be implemented consistent with Assembly Bill 1890."

8. Edison shall deduct any depreciation recovered before the effective date of this decision from the amount of step-up transformers costs added to SONGS sunk costs. No later than 30 days after the effective date of this decision, Edison shall file an advice letter which would true-up SONGS step-up transformer costs by deducting all depreciation recovered before the effective date of this decision from SONGS step-up transformer costs.

This order is effective today.

Dated July 16, 1997, at San Francisco, California.

P. GREGORY CONLON

President

JESSIE J. KNIGHT, JR.

HENRY M. DUQUE

JOSIAH L. NEEPER

RICHARD A. BILAS

Commissioners