

Decision 99-06-078 June 24, 1999

**BEFORE THE PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA**

Application of SOUTHERN CALIFORNIA  
EDISON COMPANY (U 338-E) to Report on the  
Valuation Process for Certain Generation-Related  
Assets Pursuant to D.97-11-074.

Application 98-05-014  
(Filed May 1, 1998)

**OPINION ON THE VALUATION PROCESS  
FOR CERTAIN GENERATION-RELATED  
ASSETS (LAND ALLOCATION, MATERIALS  
AND SUPPLIES INVENTORY AND FUEL INVENTORIES)**

**Summary**

For purposes of transition cost recovery, we adopt Southern California Edison Company's (Edison) proposals for market valuation of retained power plant land, materials and supplies inventories, and certain fuel-oil facilities and inventories. Specifically, we approve the following:

1. The methodology by which Edison will allocate, according to function, all of the land retained at the sites of its divested gas-fired generating stations.
2. Transmission land will be retained in the regulated utility and not be subject to market valuation.
3. Residual land will be surveyed into parcels, advertised and sold promptly.
4. Market valuation of fuel-oil land, fuel-oil facilities, and fuel-oil inventories other than jet turbine fuel, will be deferred until year-end 1999 to allow a determination by the Independent System Operator (ISO) whether these assets are needed for system reliability. However, Edison is required to submit a proposal for market valuation of these assets, no later than January 31, 2000, regardless of whether the ISO has made its determination.

5. Edison's assessment that market value of its inventories of fossil-generation materials and supplies (M&S) as of December 31, 1997, was equal to the book value.
6. Edison's assessment that market value of its inventories of fossil-generation fuels as of December 31, 1997, was equal to the book value.

## **Background**

In its Transition Costs Phase II decision, Decision (D.) 97-11-047, the Commission ordered Edison, Pacific Gas and Electric Company (PG&E), and San Diego Gas & Electric Company (SDG&E) to file, by March 2, 1998, an application in which each utility would report its assessment of the market value of its M&S inventory as of December 31, 1997, and, in the case of Edison, its inventory of fuels (gas, coal and fuel oil) as of the same date. Edison was also directed to include: (1) a proposal to ensure that ratepayers continue to benefit from the revenue-sharing mechanism for fuel oil inventory, adopted in D.94-10-044;<sup>1</sup> (2) a description of the principles necessary to appraise retained generation assets (which will be addressed in a separate decision); and (3) an analysis of the land that Edison retained at its divested gas-fired generating stations, allocating this land according to function, i.e., transmission-related, fuel-oil-related, and residual generation-related land. Edison's proposal for treatment of the fuel-oil-related land, was to be consistent with the revenue-sharing mechanism created under D.94-10-044. (Ordering Paragraph 17, D.97-11-047.)

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<sup>1</sup> In D.94-10-044, the Commission authorized Edison to use certain of its oil facilities for third-party oil storage and transport business, and established a mechanism for sharing revenue from that business with the ratepayers.

PG&E, SDG&E and Edison jointly petitioned the Commission on February 18, 1998, to modify certain provisions of D.97-11-074. The utilities petitioned, among other things, that due to the delay in the start-up of the direct access electricity market from January 1, 1998, to an expected start date of April 1, 1998, the date as of which the utilities should determine the market values of their inventories also should be moved forward, to March 31, 1998. The utilities also requested a corresponding extension of the filing date for their applications. Concurrently, the utilities requested that the Commission's Executive Director grant a shorter term extension of the filing date, in order to give the Commission time to act upon the petition. The Executive Director granted an extension of the filing date to May 1, 1998. The Commission subsequently, in D.98-04-065, denied the utilities' petition to alter the inventory valuation date and also denied any further extension of the application filing date.

### **Procedural Summary**

In Resolution ALJ 176-2993 dated May 21, 1998, the Commission preliminarily categorized this application as ratesetting, and preliminarily determined that hearings were necessary.

As directed by D.97-11-074, Edison filed its application and testimony on May 1, 1998.<sup>2</sup> A prehearing conference was held on October 1, 1998.

A Scoping Memo and Ruling of Assigned Commissioner was issued on February 1, 1999. Assigned Commissioner Duque ruled that: (1) these land/M&S/fuel issues should be treated as a separate phase in this proceeding; (2) since these issues do not involve any disputed issues of material fact,

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<sup>2</sup> See Ordering Paragraphs 3, 4 and 17 of D.97-11-074, and D.98-04-065.

evidentiary hearing was not necessary and the issues should be submitted for decision based on the written pleadings of the parties; and (3) these issues would be categorized as ratesetting. In addition, the Scoping Memo designated the assigned Administrative Law Judge (ALJ) as the presiding officer. We affirm in this decision that no hearings are necessary for this phase.

On March 2, 1999, opening briefs were filed by Edison, Enron Corp. (Enron) and The Utility Reform Network (TURN). Reply briefs were filed by Edison, Enron and TURN on March 16, 1999. Thereupon, this phase of the proceeding was submitted for decision.

### **Allocation of Retained Land at Edison's Divested Gas-Fired Generating Stations**

Although it has divested its 12 gas-fired generating stations, Edison retained certain land surrounding the stations. Edison states that in the context of a fully regulated, vertically integrated utility, this land was regarded as "generation-related," but now in the restructured context, Edison proposes that this land should be reallocated into three separate categories (one of which may be temporary), as follows:

1. Transmission lands are the lands reasonably needed to house Edison's switchyards and transmission and distribution lines, which were not divested with the plants.

Edison proposes to hold this land as the transmission and distribution utility. This land therefore will not be subject to market valuation, and will receive full rate of return.

2. Fuel-oil lands are the lands containing oil tanks and pipelines. Although these oil storage and transport facilities are no longer used for the normal daily operations of the plants (which are now essentially completely gas-fired), they have been retained to provide emergency back-up fuel oil capability.

Edison proposes to hold these facilities and the associated land for an interim period while the Independent System Operator (ISO) determines whether there is a long term need, for electric reliability purposes, to maintain this back-up oil capability.

3. Residual lands are the remaining lands at the generating station sites that have been retained to date by Edison but are not transmission related or fuel-oil related.

Edison proposes to sell or otherwise establish the market value of these lands and credit the net proceeds to offset transition cost recovery.

Edison's testimony (Exhibit SCE-I) describes the tentative boundaries of these three categories of land at each site, and the corresponding book values. Although actual surveying and parcel work has not yet been completed, Edison requests that the Commission approve its methodology, so that Edison can proceed with finalizing the survey and parcel work, and proceed with establishing the value of the residual properties (and potentially the fuel oil properties).

TURN disagrees with Edison's proposal to advertise and sell the residual lands. TURN points out that 2,500 acres of land falls into the residual category and this represents more than 60% of the total acreage associated with Edison's gas-fired powerplants prior to divestiture. The average book value of this land is approximately \$6,000 per acre. In one case (Ormond Beach), the residual land is 544 largely undeveloped acres on and near the beach in Ventura County, with a book value of approximately \$12,000 per acre. While TURN agrees that the property's proximity to an operating powerplant will certainly impact its value, TURN believes it is safe to assume that the current market value is far in excess of the book value.

TURN recommends that market valuation of the residual lands be done through an auction structured to maximize the value obtained for each parcel of property which may require selling some parcels in smaller pieces. TURN suggests that if Edison wishes to retain the property, it could participate as one of the bidders in the auction. Alternately, TURN recommends market valuation through a simple appraisal process. Since such an appraisal would not involve any associated generation or other utility assets, TURN suggests that the Commission rely on a range of values determined by several independent appraisers. TURN suggests that one appraiser be selected by the utility, one by the Office of Ratepayer Advocates or some other appropriate ratepayer advocate, with the third by the two other appraisers. According to TURN, the Commission could apply the higher of the median or average appraised value as an offset to the uneconomic assets remaining in the Transition Cost Balancing Account (TCBA).

TURN agrees with Edison that land in the transmission land category should not be subject to market valuation at this time.

Rather than continue waiting for an ISO decision on the need to maintain the fuel-oil land for reliability purposes, TURN argues that the Commission should adopt an alternative valuation process that recognizes that the land and the associated facilities may be so designated by the ISO. TURN suggests soliciting two appraisals from qualified appraisers, one of which assumes the ISO decides the fuel-oil related plant is necessary, and the other assuming the ISO decides it is not necessary. TURN recommends that the lower of the two values be applied to the balance in the TCBA as an interim valuation. Then, if the ISO reaches the opposite determination than that assumed for the lower of the two values, the associated increase in value could be captured and applied to the TCBA at that time.

TURN acknowledges that the fuel-oil related property is more problematic because the ISO will declare at some point whether or not the assets on that property are necessary for back-up fuel capability. However, TURN believes that the Commission should devise a reasonable methodology for achieving at least an interim valuation of this land, subject to future true-up.

Enron shares TURN's concern regarding the length of time Edison is taking to set the market value of these properties. Enron argues that the Commission should require Edison to provide complete information supporting its proposed allocation of land according to function. Enron contends that analysis cannot be complete with only the preliminary and approximate information Edison provides in its application. Accordingly, Enron requests that the Commission require Edison to proceed with its surveys and analyses and report the results quickly, by a date certain so that the Commission and interested parties will have an opportunity to examine the results.

Edison concurs with the need to set the market value of these lands without further delay. However, Edison requests that the Commission first approve the proposed methodology set forth in its application so that it can proceed promptly.

Edison disagrees with TURN that the market valuation be done through auction. Edison proposes to sell most or all of the residual land, but believes it is unnecessary for the Commission to order an auction process. While Edison agrees that an auction often is appropriate or necessary for assets such as an assemblage of powerplants, Edison contends that for the largely undeveloped land that is at issue here, an auction would be unusual and would not present any advantage. According to Edison, it would be simpler to list and advertise the properties for sale and to directly negotiate the sales.

Edison argues that the Commission need not determine the precise appraisal method now. According to Edison, it is quite likely that none of the Edison residual lands will be appraised. If any have to be appraised, then depending on the size and nature of the property, Edison expects that Edison, TURN and any other interested stakeholders would be able to reach prompt agreement (which would be subject to Commission approval) on a simpler and less costly appraisal procedure, for example, employing a single mutually selected appraiser. Edison asserts that the single appraiser approach would not be at all uncommon for appraisals of this type of property, and Edison sees no point in precluding that possibility.

Addressing Enron's argument that Edison first should complete all final property surveys, Edison points out that the purpose of its application has been to ascertain that interested stakeholders have no reasonable objection to Edison's proposed allocation of the lands before Edison finalizes exact property boundaries – a process that entails costs and often can only be completed with input from local authorities and/or the buyer. Edison contends it makes no sense to go through that process twice. Accordingly, Edison requests that the Commission authorize it to proceed with the valuation of the residual lands, including finalizing the exact property lines at one time. Further, Edison requests that unless it deviates materially from its application and testimony in any transaction, without adequate explanation to the Commission, Enron and all other parties should be estopped from challenging any final land boundaries.

### **Discussion**

We share the concerns of the non-utility intervenors that the market valuation of Edison's assets subject to valuation is not proceeding as expeditiously as expected. Delay in market valuation extends the duration of the



rate freeze and the collection of the Competition Transition Charge (CTC) from customers, while at the same time forestalling commencement of meaningful competition. Rather than delay matters further in a search for the perfect solution, we believe it is time to make decisions based on the situation as it exists and adopt a more expedient course of action.<sup>3</sup>

We agree with Edison that for the residual lands, an auction process would be unnecessarily expensive and unwieldy; therefore, Edison should list and advertise the properties and directly negotiate the sale for individual parcels. Upon completion of any such sale or transfer, Edison should make an appropriate filing with the Commission identifying the property sold, the purchase price, the transaction costs and the net proceeds that will be credited to the Transition Cost Balancing Account.<sup>4</sup>

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<sup>3</sup> Pub. Util. Code § 330(t) provides that "[t]he transition to a competitive generation market should be orderly, protect electric system reliability, provide the investors in these electrical companies with a *fair opportunity to fully recover the costs associated with commission approved generation-related assets and obligations, and be completed as expeditiously as possible.*" (Emphasis added.)

Also, in D.97-11-074, the Commission stated:

"In addition, we will establish procedures to complete the market valuation process as early in the transition period as possible. All generation assets owned by the utilities must be market valued by December 31, 2001, consistent with § 367(b), by divestiture, appraisal, or other form of sale. Nothing in the legislation, however, precludes us from requiring that this market valuation occur before that date. Early market valuation will ensure that the transition to a competitive generation market is completed as expeditiously as possible." (Mimeo., p. 56.)

<sup>4</sup> Pub. Util. Code § 851 prohibits a public utility from selling or otherwise disposing of or encumbering any utility property that is "necessary or useful in the performance of its duties to the public" without first having obtained Commission approval. In the case of the residual land that is at issue here, however, upon Edison's divestiture of the associated generating stations this land ceased to be necessary or useful in the

*Footnote continued on next page*

We are not persuaded that, as has been suggested by Enron, the Commission should withhold its approval of market valuation principles until Edison provides exact property boundaries. We believe that Edison has provided sufficient information for the Commission to identify the parcels of land in question (Exhibit SCE-1). The added delay, presumably six months, would not compensate for any benefit that might result from the availability of precise property lines. Accordingly, we conclude that Edison should be authorized to finalize property lines, and to advertise and sell these residual lands without further delay.

Edison argues that for the fuel-oil related property, the ISO should be permitted a reasonable time to address back-up oil issues. According to Edison, the ISO has always understood that it has at least 18 months (starting from the time of the plant sales in early 1998, not from November of 1997) to address this issue. Edison believes that this period is reasonable given the many burdens on the ISO's time, and Edison understands from the ISO that it does intend to make a determination within this time period.

Edison believes that the suggestions of TURN and Enron are at best premature, and if pursued now would only add needlessly to the Commission's and parties' workloads. Edison argues that an ISO determination is expected within a matter of months, which should permit the parties and the Commission to address the issue of valuation of these properties then in a more definite way. However, Edison agrees with TURN that if the ISO has not clarified the long-

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performance of any utility duty, and the Commission specifically determined this when it directed Edison in D.97-11-074 to remove the residual land from rate base as of January 1, 1998.

term status of the back-up oil facilities by late 1999, it would be appropriate to consider alternative approaches such as interim valuation.

We agree with Edison that for the fuel-oil related property, an interim valuation for the intervening few months would not be worth the considerable cost and effort. We agree that the ISO should have until December 31, 1999 to clarify the long-term status of the back-up oil facilities. Therefore, we shall order Edison to file a new application for market valuing the fuel-oil properties (and fuel oil inventory), no later than January 31, 2000, regardless of whether the ISO has made its determination.

Regarding transmission-related land, we note that there is no disagreement on the treatment of this land. We agree that transmission-related land should not be subject to market valuation and should be retained in the utility.

### **Assessment of Material and Supplies Inventories**

Ordering Paragraph 17 of D.97-11-074 decision requires the utilities to "report assessments of the materials and supplies inventories." More specifically, the Commission found that non-nuclear generation materials and supplies inventories should be inventoried as of December 31, 1997, and that the utilities should determine the fair market value of these inventories. To the extent a portion of these inventories is uneconomic, i.e., the book value is greater than market value, Phase II decision finds that such uneconomic costs are eligible for recovery in the TCBA. (D.97-11-074, mimeo., at p. 67.) The utilities were required to report the market value of the materials and supplies inventories in this application for the Commission's review.

Alternatively, the Commission ruled that utilities "may deem the book value of the December 31, 1997, materials and supplies balances equal to their

market value." (D.97-11-074, mimeo., at p. 67.) Under this option, utilities are required to track the difference between the inventories at year-end 1997 and those existing at the date of market valuation of the plant to ensure that the "going forward" cost of materials and supplies are not recovered in the TCBA.

In compliance with D.97-11-074, Edison assessed its inventory of non-nuclear generation material and supplies associated with its power plants. A table identifying the generation materials and supplies book values as of December 31, 1997, on a plant-by-plant basis, is included in its prepared testimony (Exhibit SCE-2).

Edison has elected to deem the market value of its M&S inventories equal to the book value. Edison will use the December 31, 1997 inventory levels for purposes of market valuation of the generation facilities and will track changes in inventory levels to ensure that additional costs are not recovered in the TCBA.

We agree with this approach. At the time the plants are divested, Edison should compare the proceeds to the book value of the plants (including M&S inventories) to determine the net debit or credit to the TCBA. For materials and supplies, rather than using the book value of the inventories at the time of the sale, Edison should use the book value as of December 31, 1997, in this calculation for those materials in inventory when the sales close. Edison's entries to the TCBA will be reviewed in the annual transition cost proceedings (ATCP) established by the Commission in D.97-06-060.

Edison states that from January 1, 1998 through March 31, 1998, it has recorded in its ISO/PX Implementation Delay Memorandum Account its authorized monthly operations and maintenance expense, which includes a

component for M&S expense.<sup>5</sup> According to Edison, beginning April 1, 1998, consumption of M&S inventory will be considered as going forward costs to be recovered from the market.

Enron takes exception to Edison's proposal. Enron argues that consistent with Pub. Util. Code § 367(c) and D.97-11-074, costs associated with Edison's M&S and gas and coal inventories are "Going Forward Costs" beginning January 1, 1998 and are not recoverable as transition costs. According to Enron, Edison is claiming that because of the delay in the commencement of ISO and Power Exchange (PX) operations, the changes in inventory levels of M&S and gas and coal inventories, are not "going forward costs" until April 1, 1998, and Edison has chosen to ignore the "bright line" date established in § 367(c) and in D.97-11-074.

Also, Enron points out that in D.98-04-065, the Commission rejected the utilities' joint petition to move the bright line date for determining going forward costs because of the delay in start-up of ISO and PX operations.

In its response, Edison argues that Enron apparently means to assert that notwithstanding the three-month delay in the start-up of the ISO and PX, Edison should be precluded from making the same three-month adjustment to the "going-forward date" delineating the point at which Edison has to begin

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<sup>5</sup> Edison filed Advice Letter 1285-E on January 28, 1998, pursuant to D.97-12-131 Ordering Paragraph 11, "to establish Independent System Operator and Power Exchange Implementation Delay Memorandum Accounts to record (a) Electric Revenue Adjustment Mechanism-related costs, such as authorized Administrative and General and Operation and Maintenance costs that are not recorded in the TCBA; and (b) Energy Costs Adjustments Clause costs, such as fuel costs, that would otherwise have been recorded in other authorized memorandum accounts. These memorandum accounts will sunset with the commencement of Independent System Operator (ISO) and Power Exchange (PX) operations."

recovering its costs from the ISO and PX. Edison believes that Enron apparently would have it forego all cost recovery for three months.

We believe that Enron and Edison are addressing two separate issues:

- (1) market valuation of M&S (capital assets) for transition cost purposes as of December 31, 1997, and (2) ongoing consumption of M&S, an expense item.

The Commission's Restructuring Policy Decision<sup>6</sup> and Assembly Bill (AB) 1890, and specifically Pub. Util. Code § 367, authorize the utilities to recover from ratepayers those generation-related costs rendered uneconomic by restructuring. For M&S and fuel inventories – assets that fluctuate over time through depletion and replenishment – determining the total costs that are actually “stranded” by restructuring and thus legitimately recoverable in rates requires a “snapshot” inventory and valuation of these assets held upon the commencement of the restructuring period. In denying a change in the valuation date from December 31, 1997, if the M&S and fuel inventories are valued by deeming market value equal to book value (as is generally reasonable for such assets and is expressly allowed under D.97-11-074), we reasoned that it is not significant that the valuation and transfer of the inventoried assets coincide exactly with the start date of the new market structure. (D.98-04-065, mimeo., at 7.)

With regard to valuation of the capital assets, Enron is correct that we denied the utilities' petition to alter the inventory valuation date from December 31, 1997. However, in a separate decision addressing the delay in the start-up of the ISO and the PX, we granted the utilities an opportunity to recover expenses, including M&S inventory consumed during the three-month period:

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<sup>6</sup> D.95-12-063, as modified by D.96-01-009.

"PG&E, Edison, and SDG&E have proposed to establish a new memorandum account, the ISO/PX Implementation Delay Memorandum Account, to record all ERAM-related costs, such as authorized Administrative and General (A&G) costs and Operation and Maintenance (O&M) costs that are not recorded in the TCBA, as well as all ECAC costs, such as fuel costs, that would otherwise have been recorded in other authorized memorandum accounts.

Consistent with the recommendations of the utilities and ORA, we adopt this approach, with the requirement that these tracking mechanisms expire upon commencement of operations of the ISO and PX. In any filing requesting recovery of costs recorded in this tracking account, each utility shall include a showing that it undertook all practicable steps to minimize delay. We agree with both ORA and Enron that we prefer this delay to be as brief as possible.

"The goal of this decision is to maintain the regulatory status quo for a short time until the ISO and PX are ready to commence operations, consistent with FERC authorizations. ..." (D.97-12-131, mimeo., p. 5.)

Thus, according to D.97-12-131, Edison should have an opportunity to recover M&S expenses for the three-month period preceding the start-up of the ISO and PX on April 1, 1998. And we conclude that contrary to Enron's assertions, Edison is not seeking, in this proceeding, to move the December 31, 1997 bright line date for valuation of M&S inventory.

Accordingly, we will approve Edison's assessment that the book value of its M&S inventories as of December 31, 1997, is equal to its market value for purposes of transition cost recovery. Also, as stated in D.97-12-131, Edison should be allowed to seek recovery through the ISO/PX Implementation Delay Memorandum Account for M&S consumed during the three-month period.

### **Assessment of Gas, Coal and Oil Inventories**

Ordering Paragraph 17 of D.97-11-074 requires, among other things, that Edison file an application to report the assessments of its fuel inventory. Edison

was also required to include a proposal to ensure that ratepayers continue to benefit from the revenue-sharing mechanism for fuel oil inventory adopted in D.94-10-044.

The Commission intended to market value the gas and coal inventories as of December 31, 1997, to establish a bright line for determining uneconomic costs up to January 1, 1998 and going forward costs after that date. Ordering Paragraph 4 of D.97-11-074 stated that for gas and coal inventories, Edison may deem the book value at December 31, 1997 equal to the market value. Edison has by this application deemed the December 31, 1997 book value of its gas and coal inventory to be equal to market value.

Regarding fuel oil inventory, D.97-11-074 found it appropriate to defer consideration of transition cost recovery pending a determination by the ISO as to whether those inventories are needed for system reliability. In this application, Edison has, therefore, not included any amount for fuel oil inventory being retained at this time. However, Edison is divesting a small portion of fuel oil (jet turbine fuel as discussed below) and that portion is market valued in this application.

### ***Gas Inventory***

Most gas inventory owned by Edison is stored at various facilities owned by Southern California Gas Company (SoCalGas).

Edison has deemed the December 31, 1997 book value of its gas inventory to be equal to the market value. The recorded book balance at December 31, 1997 is \$717,455. Since the book value is equal to market value, the net of these two values will be a zero entry to the TCBA, effective as of January 1, 1998. From January 1, 1998 through March 31, 1998, all gas actually consumed has been recorded in the ISO/PX Implementation Delay Memorandum Account.



Beginning April 1, 1998, consumption of the gas inventory will be considered a going forward cost to be recovered from the market. Edison's gas inventory account with SoCalGas expired on March 31, 1998.

We will accept Edison's book value of gas inventory for purposes of market valuation for transition cost recovery.

### ***Coal Inventory***

Edison maintains its coal inventories at its Mohave Generating Station. As of December 31, 1997, Edison had recorded \$6,838,958 on the books for its total coal inventory.

Edison has deemed the December 31, 1997 book value of its coal inventory to be equal to the market value. Since book value is equal to market value, the net of these two values will be a zero entry to the TCBA, effective as of January 1, 1998. From January 1, 1998 through March 31, 1998, the value of all coal actually consumed has been recorded in Edison's ISO/PX Implementation Delay Memorandum Account. Beginning April 1, 1998, consumption of the coal inventory has been considered a going forward cost to be recovered from the market.

We will adopt Edison's book value of coal inventory for purposes of market valuation for transition cost recovery.

### ***Fuel Oil Inventory and Related Facilities***

Assigning a market value to Edison's back-up fuel system involves valuing both the actual inventory of fuel oil and the facilities Edison has maintained to store and transport its back-up fuel oil. The treatment of each of these matters is addressed below.

Edison's total fuel oil inventory includes the following types of liquid fuels:

**1. Low Sulfur Fuel Oil (No. 6 Fuel Oil).**

A relatively heavy, viscous fuel, often referred to as "No. 6 fuel oil" or "low sulfur fuel oil," which is intended for use in steam boiler units. Measured by book value, this fuel constitutes approximately 80% of Edison's total inventory of fuel oils.

**2. Diesel Fuel Oil**

Lighter, distilled oil products including diesel fuel and combined-cycle turbine fuel intended for use in Edison's combined-cycle units.

**3. Jet Turbine Fuel**

Another lighter, distilled oil product used as fuel in Edison's peaker turbine units

In its divestiture Application (A.) 96-11-046, at Exhibit SCE-5, pp. 24-33), Edison proposed to retain, at least for an interim period, all of the fuel oil and the tank facilities where that fuel is stored, pending an ISO determination of the need for that fuel for system reliability. This proposal, which we subsequently approved, stemmed from concern that while this fuel might be needed in the event of natural gas unavailability, nonutility plant owners might have limited incentives to keep it available because of the costs of storing it (which involves continuous heating and circulating of the oil) and environmental restrictions on using it. The fuel oil included in this category was the low sulfur fuel oil and the combined cycle turbine fuel stored at Long Beach and Cool Water Generating Stations. Edison's diesel-fired Catalina facility is not undergoing divestiture or transition cost treatment at this time, so the diesel fuel inventory at that facility is not at issue in this proceeding. Edison will not retain any of the jet turbine fuel stored at the plants undergoing divestiture.

Edison has entered into agreements to sell all of its 12 oil-fired generating facilities, including all four plants that have peaker units which burn

jet turbine fuel. In all four cases, the jet turbine fuel stored by Edison for the peaker units is being sold with the respective plant.

Edison states that it has deemed the December 31, 1997 book value of its jet turbine fuel inventory to be equal to market value. Since book value is equal to market value, the net of these two values will be a zero entry to the TCBA, effective as of January 1, 1998. From January 1, 1998 through March 31, 1998, all fuel actually consumed has been considered by Edison to be a cost recoverable through rates under the ISO/PX Implementation Delay Memorandum Accounting. Beginning April 1, 1998, consumption of the jet turbine fuel inventory has been considered by Edison to be a going forward cost to be recovered from the market.

The book value for the jet turbine fuel inventory that will be divested with the peaker units is \$671,382 as of December 31, 1997. Edison states that internal auditors performed an observed physical inventory of the fuel oil at generating stations and pipeline system locations near year end 1997 and were able to reconcile the inventory to the balances at December 31, 1997.

We will adopt Edison's book value of jet turbine fuel as of December 31, 1997 for purposes of market valuation for transition cost recovery.

### ***Related Facilities***

Edison has maintained a storage and pipeline system as part of its maintenance of back-up fuel oil capability. We authorized Edison to recover the costs of these facilities in rates.<sup>7</sup> In light of the potential for use of this storage and pipeline system to provide additional services to third parties without

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<sup>7</sup> The Edison Pipeline and Terminal Company revenue requirement continues in effect via the Unbundling Decision, D.97-08-056.

impairing Edison's ability to provide back-up fuel capability, in D.94-10-044, we authorized Edison to make the facilities available to third parties for their storage and transportation needs. For the purpose of developing the commercial capability of the existing storage and pipeline system, Edison created the Edison Pipeline and Terminal Company (EPTC), which primarily transports oil for third parties. In exchange for allowing EPTC to utilize this capacity, and in recognition of the additional costs and risks of such use, we authorized a revenue sharing arrangement, whereby ratepayers receive 12.5% of the gross revenue generated therefrom.

In A.96-11-046, Edison proposed for the 18-month transition period following gas plant divestiture to continue to maintain the oil system and to provide the back-up oil-burn capability to the new generation owners as part of Edison's obligations under its Facilities Services Agreement. Edison invited the Commission and the ISO to use this 18-month period to determine future requirements for back-up fuel capability.

Although the back-up fuel oil and related facilities are generation assets, and thus presumptively eligible for market valuation, the Commission in D.97-11-074 concluded that "[i]t is appropriate to defer consideration of the transition cost recovery of fuel oil inventory pending the ISO's determination as to whether these inventories are necessary for system reliability." (D.97-11-074, mimeo., at p. 190.) The Commission's decision did not specifically address whether the consideration of fuel oil "facilities" would also be deferred. Edison believes that it is premature to set the market value of both assets until the ISO issues its determination. We agree.

Edison points out that should the ISO conclude that back-up fuel oil capacity is needed for system reliability, then the ISO must also promulgate a process that ensures that Edison is appropriately paid for this service. Edison

anticipates that the procedure that the ISO would follow to resolve this issue would likely involve an application by the ISO to FERC. Prior to the ISO's determination, Edison proposes that there be no change to the EPTC sharing mechanism and that the 12.5% ratepayer share of gross revenues be applied to the TCBA. We agree.

As discussed above, no later than January 31, 2000, we expect Edison to file an application, with its proposal to set the market value of the remaining fuel oil lands and fuel oil inventory at its divested gas-fired power plants, regardless of whether the ISO has made its determinations.

### **Comments on Draft Decision**

The draft decision of the ALJ in this matter was mailed to the parties in accordance with Pub. Util. Code § 311(g) and Rule 77.1 of the Rules of Practice and Procedure. Comments were filed on June 10, 1999 by Edison. No reply comments were filed. We have reviewed the comments and made changes to the draft decision where appropriate.

### **Findings of Fact**

1. Following divestiture of its 12 gas-fired generating stations, Edison retained certain lands surrounding these stations.
2. These lands should be categorized as: (1) transmission lands, (2) fuel-oil lands, and (3) residual lands.
3. Transmission lands should continue to be held by the regulated utility, and not be subject to market valuation.
4. Market valuation of fuel-oil lands, fuel-oil facilities and inventories, except for a small portion of jet turbine fuel, should be deferred to year-end 1999 to allow the ISO to decide whether these assets are required for system reliability purposes.

5. The ISO should have until December 31, 1999 to clarify the long-term status of the back-up oil facilities.
6. The market value on the residual lands should be established immediately upon approval by the Commission of the procedure for doing so.
7. Delay in market valuation extends the duration of the rate freeze and the collection of the Competition Transition Charge (CTC) from customers, while at the same time forestalling commencement of meaningful competition.
8. For the residual lands, an auction process would be unnecessarily expensive and unwieldy; therefore, Edison should list and advertise the properties and directly negotiate the sale for individual parcels.
9. Edison has provided sufficient information for the Commission to identify the parcels of land in question (Exhibit SCE-1).
10. Edison should be authorized to finalize property lines, and to advertise and sell these residual lands without further delay.
11. For purposes of market valuation of the M&S assets at its divested gas-fired power plants, the December 31, 1997 inventory levels and associated book values should be used.

### **Conclusions of Law**

1. Edison's proposed categorization of the lands to be retained at its divested gas-fired generation facilities, as set forth in Exhibit SCE-1, is reasonable.
2. Edison's proposal to finalize property lines, and to advertise and sell the lands categorized as residual, is reasonable.
3. To give the ISO time to decide on the need to maintain back-up oil capability, Edison's proposal to defer year-end 1999 a decision on market valuation of fuel-oil lands, and fuel-oil facilities and inventory except for a small portion of jet turbine fuel, is reasonable. However, Edison should submit its

proposal for market valuing these assets no later than January 31, 2000, regardless of whether the ISO has made its decision.

4. Edison's proposal to retain transmission lands in the regulated utility is reasonable.

5. Upon completion of negotiations for the sale of any fuel oil lands or residual lands, Edison should file a Pub. Util. Code § 851 application and seek Commission approval for any such sale or transfer.

### **O R D E R**

#### **IT IS ORDERED that:**

1. Southern California Edison Company's (Edison) proposed categorization of retained lands at its divested gas-fired power plants, as set forth in Exhibit SCE-1 is approved.

2. Edison's proposal to finalize surveying property lines, and to advertise and sell the land categorized as residual is approved.

3. Edison's proposal to defer decision on market valuation of fuel-oil lands, fuel-oil facilities, and fuel-oil inventory at its divested gas-fired power plants until year-end 1999 is approved.

4. Edison shall, no later than January 31, 2000, file an application with its proposal to establish the market value of the remaining fuel-oil lands and fuel-oil facilities and fuel-oil inventory at the divested gas-fired power plants.

5. Edison's proposal to retain transmission lands in the regulated utility is approved.

6. For purposes of market valuation of its inventories of materials and supplies, at its divested gas-fired power plants, Edison shall use the December 31, 1997 inventory levels and associated book values.

7. This proceeding shall remain open to address other issues.

This order is effective today.

Dated June 24, 1999, at San Francisco, California

RICHARD A. BILAS

President

HENRY M. DUQUE

JOSIAH L. NEEPER

JOEL Z. HYATT

Commissioners

I abstain.

/s/ CARL W. WOOD  
Commissioner