

PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

COMMISSION ADVISORY AND  
COMPLIANCE DIVISION  
Energy Branch

RESOLUTION E-3424\*  
March 13, 1996

R E S O L U T I O N

RESOLUTION E-3424. SOUTHERN CALIFORNIA EDISON COMPANY'S REQUEST FOR AUTHORIZATION TO REFUND TO RATEPAYERS UNSPENT RESEARCH, DEVELOPMENT AND DEMONSTRATION FUNDS, WITH INTEREST, FROM ITS 1988-1991 GENERAL RATE CASE CYCLE BY CREDITING ITS ELECTRIC REVENUE ADJUSTMENT MECHANISM BALANCING ACCOUNT.

BY ADVICE LETTER 938-E-B, FILED ON MARCH 31, 1995 AND  
ADVICE LETTER 938-E-C FILED ON FEBRUARY 16, 1996.

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SUMMARY

1. By Advice Letters 938-E-B and 938-E-C, Southern California Edison Company (Edison) requests approval to return to ratepayers unspent Research, Development and Demonstration (RD&D) funds of \$731,000 from its 1988-1991 General Rate Case (GRC) cycle by transferring the funds, plus interest, from its RD&D one-way balancing account to its Electric Revenue Adjustment Mechanism (ERAM) balancing account.
2. The Division of Ratepayer Advocates (DRA) filed a protest recommending that Edison instead transfer \$2.634 million, plus interest, to its ERAM balancing account. DRA's recommendation is based on its interpretation of Decision (D.) 94-10-041 regarding the treatment of certain expenses within Edison's RD&D one-way balancing account.
3. This Resolution approves Advice Letter 938-E-B as supplemented by Advice Letter 938-E-C. DRA's protest is denied.

BACKGROUND

1. In D.87-12-066, the Commission directed Edison to establish and maintain a separate one-way balancing account for RD&D expenditures to insure that funds approved for RD&D would be spent only on RD&D or returned to ratepayers with interest. The Commission specified that within a rate case cycle, funds not used in one year may be used in subsequent years or refunded to ratepayers at the end of the rate case cycle.
2. The Commission, in D.87-12-066, also authorized RD&D funding levels for test year 1988 and attrition years 1989 and 1990. An RD&D funding level for 1991 was established pursuant to a settlement agreement adopted by D.90-12-021.

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3. In its decision of Edison's 1992 GRC (D.91-12-076), the Commission, among other things, (1) ordered the Commission Advisory and Compliance Division (CACD) to conduct an independent comprehensive financial audit of Edison's RD&D expenditures for the period 1988 through 1992, (2) allowed Edison a second opportunity to present evidence on RD&D capitalization, and (3) specified that Edison should file an advice letter within 90 days at the end of 1991 to dispose of unspent funds which had accrued in its RD&D one-way balancing account for the period 1988 through 1991, with accumulated interest.

4. Edison filed Advice Letter 938-E on March 31, 1992 pursuant to D.91-12-076 requesting to refund to ratepayers \$1.079 million of unspent RD&D funds from the 1988-1991 GRC cycle, plus interest.

5. Following this filing and before the commencement of the CACD audit, Edison's internal auditors initiated a review of RD&D expenditures and the related accounting treatment for expenditures made subsequent to January 1, 1988. In its review, Edison discovered accounting misclassifications and inconsistencies in the treatment of RD&D costs affecting the RD&D one-way balancing account during the 1988 through 1991 time period.

6. On July 17, 1992, Edison requested that the Commission withhold action on Advice Letter 938-E until Edison could complete its review and determine the appropriate amounts to be recorded in the account.

7. In September and November 1992, Edison filed additional testimony on RD&D capitalization in the reopened phase of its 1992 GRC.

8. Edison filed Supplemental Advice Letter 938-E-A on December 15, 1992 indicating that no unspent RD&D funds existed from the 1988-1991 GRC cycle. This revised filing incorporated the results of Edison's internal examination. Edison recognized, however, that the CACD audit would also review RD&D expenditures for the same time period. In order to avoid unnecessary administrative burdens and to resolve efficiently the disposition of the RD&D one-way balancing account for the 1988-1991 GRC cycle, Edison requested the Commission not to take any action until the conclusion of the CACD audit.

9. On January 4, 1993, DRA protested Advice Letter 938-E-A. DRA agreed with Edison that the Commission should withhold action on the advice letter until after the conclusion of CACD's financial audit but also requested that the Commission withhold action on the advice letter until the Commission decided related RD&D issues pending in Edison's 1992 GRC.

10. CACD selected the Barrington-Wellesley Group (BWG) to perform the financial audit ordered in D.91-12-076. The audit commenced in February and was completed in June of 1993. During the audit, BWG examined the accounting treatment for all RD&D program costs and revealed accounting adjustments beyond those identified by Edison. BWG's final audit report was submitted as

an exhibit for consideration by the Commission in Edison's 1995 GRC and was also addressed, in part, in the reopened phase of its 1992 GRC.

11. In October 1994, the Commission issued D.94-10-041 which addressed Edison's 1992 GRC renewed requests for RD&D capitalization, reclassifications of RD&D capital to expense, proposed accounting changes, and various BWG audit recommendations. The Commission adopted a one-time exception for the treatment of certain expenses in the one-way balancing account.

12. On March 31, 1995, Edison filed Advice Letter 938-E-B requesting Commission authorization to return to ratepayers unspent RD&D funds of \$731,000 for the 1988-1991 GRC cycle by transferring the funds, plus interest, from its RD&D one-way balancing account to its ERAM balancing account. This supplemental filing revised, updated, and replaced in its entirety the information provided in Advice Letter 938-E-A.

13. On January 10, 1996, the Commission issued D.96-01-011 in Edison's 1995 GRC. In this decision, the Commission, among other things, addressed and resolved the outstanding BWG audit recommendations.

14. Pursuant to discussion with CACD, Edison filed Advice Letter 938-E-C on February 16, 1996, revising the accrued interest calculations provided in Advice Letter 938-E-B.

#### NOTICE

1. Advice Letters 938-E-B and 938-E-C were served on other utilities, government agencies, and to all interested parties who requested such notification, in accordance with the requirements of General Order 96-A.

#### PROTESTS

1. CACD received a late-filed protest of Advice Letter 938-E-B from DRA on May 11, 1995. In its protest, DRA recommended that Edison refund \$2.634 million instead of \$731,000, plus interest, to ratepayers. DRA's recommendation is based on its interpretation of D.94-10-041 regarding the treatment of certain expenses within Edison's RD&D one-way balancing account.

#### DISCUSSION

1. The Commission, in D.94-10-041, invoked adjustments to the RD&D one-way balancing account, beyond those identified by Edison and BWG. Specifically, the Commission allowed Edison to treat the costs of two research projects within its On-Site Generation Project as expenses rather than allow Edison to capitalize them. The Commission stated that Edison may recover and book these costs to the RD&D one-way balancing account even if the amounts cause the annual one-way balancing account caps to be exceeded,

provided the inclusion of the project costs did not cause Edison to exceed its total GRC cycle RD&D authorization.

2. CACD interprets this to mean that Edison should be allowed to recover costs associated with the On-Site Generation Project but only to the extent that there were sufficient funds within the total 1988-1991 GRC authorization. CACD believes that this means that the Commission would not authorize additional funds to cover these costs.

3. Edison submitted the following information for the 1988 through 1991 GRC cycle:

RD&D One-Way Balancing Account  
(\$ x 1,000)

Year	Authorized (A)	BWG Adj Expenses (B)	Net Under/(Over) (C) = (A) - (B)	Gross Refund (D)	On-Site Expenses (E)
1988	\$41,418	\$44,089	(\$2,671)	\$0	\$1,220
1989	\$43,025	\$42,666	\$359	\$359	\$1,043
1990	\$44,676	\$42,366	\$2,310	\$2,669	\$93
1991	\$48,142	\$46,999	\$1,143	\$3,812	\$725
Total	\$177,261	\$176,120		\$3,812	\$3,081

4. Edison calculated the net difference between annual recorded and authorized RD&D expenditures excluding the On-Site Generation Project costs by subtracting BWG's adjusted expense balances from the Commission's authorized RD&D expenditures. Using the concept of an annual one-way balancing account<sup>1</sup>, Edison arrived at a total gross amount that would have been refunded to ratepayers if the On-Site Generation Project expenditures had been capitalized rather than expensed. Edison then offset the gross refund with the On-Site Generation Project costs, resulting in its position that it should refund \$731,000, plus interest,<sup>2</sup> to ratepayers.

5. In its protest, DRA argues that Edison's interpretation of D.94-10-041 and its reconciliation of the one-way balancing

1 Within a rate case cycle, funds not used in one year may be used in subsequent years or refunded to ratepayers at the end of the rate case cycle. However, if Edison overspends its authorized annual budget and does not have unspent funds carried over from prior years to offset the overexpenditures, the expenses are not recoverable from ratepayers and may not be recorded in the one-way balancing account.

2 Edison calculated and included \$98,000 of accumulated interest for the period January 1, 1992 through March 31, 1995. Upon Commission authorization, Edison will update the interest through the date of the transfer to its ERAM balancing account.

account is incorrect. DRA states that the addition of the total On-Site Generation Project costs to the total BWG adjusted amounts for the GRC cycle causes Edison to exceed the Commission's authorized amount for the GRC cycle (i.e. \$3.081 million + \$176.120 million = \$179.201 million), which it claims was not allowed by the Commission in D.94-10-041.

6. DRA asserts that although the Commission allowed Edison the opportunity for flexibility for the On-Site Generation Project expenses, it also insisted that Edison stay within its authorized RD&D budget. Because DRA believes that Edison did not remain within its total GRC authorization, it recommends that Edison be required to true-up the one-way balancing account on an annual basis, only including On-Site Generation Project expenditures to the extent that they do not cause Edison to exceed the annual cap amounts. DRA's methodology results in a refund to ratepayers of \$2.634 million, plus interest.

7. In CACD's view, excluding the On-Site Generation Project costs and reconciling the one-way balancing account on an annual basis would require Edison to refund \$3.812 million of unspent funds to ratepayers. Then, consistent with D.94-10-041, allowing Edison to recover \$3.081 million for On-Site Generation costs would reduce the amount of the refund to \$731,000. In contrast to DRA's position, CACD believes that the existence of the \$731,000 of unspent funds indicates that Edison remained within the total amount authorized for the GRC cycle even with the inclusion of the On-Site Generation Project costs.

8. Furthermore, the Commission expressly stated in D.94-10-041 that Edison should not be denied recovery of the On-Site Generation Project costs because it was the Commission's decision to expense rather than capitalize the costs. CACD believes that a retroactive inclusion of On-Site Generation Project costs in the annual calculation of the one-way balancing account amounts, as DRA recommends, would severely limit Edison's recovery of the costs due to the timing of those expenditures. In D.94-10-041, the Commission stated:

[w]e assume that Edison would have timed its expenditures differently if it had known that these projects were expenses and hence subject to the one-way balancing account. Therefore, we will allow, in this instance, Edison flexibility so that the cost of these two projects can be recovered even if that amount causes the annual one-way balancing account cap to be exceeded so long as Edison remains within the total three-year authorization.

9. CACD believes that the Commission's acknowledgment of the timing issue effectively forecloses DRA's interpretation.

10. CACD believes that Edison's balancing account reconciliation methodology is consistent with the intent of D.94-10-041.

#### FINDINGS

1. Edison filed Advice Letter 938-E-B on March 31, 1995 requesting Commission authorization to return to ratepayers unspent RD&D funds of \$731,000 for the 1988-1991 GRC cycle by transferring the funds, plus interest, from its RD&D one-way balancing account to its BRAM balancing account.
2. In D.94-10-041, the Commission determined that Edison should be allowed to recover costs associated with the On-Site Generation Project. However, the Commission would not authorize additional funds to do so.
3. To the extent there were sufficient funds within the total 1988-1991 GRC authorization, the Commission allowed Edison flexibility so that the costs could be recovered even if the amounts caused the annual cost caps to be exceeded.
4. DRA submitted a late-filed protest of Advice Letter 938-E-B on May 11, 1995.
5. DRA asserts that including the On-Site Generation Project costs causes Edison to exceed its total GRC authorization, and therefore recommends that the Commission require Edison to true-up the balancing account on an annual basis.
6. DRA believes that Edison should be allowed to recover On-Site Generation Project expenditures only to the extent that they do not cause Edison to exceed the annual authorized amounts.
7. Excluding On-Site Generation Project costs and reconciling the one-way balancing account on an annual basis would require Edison to refund \$3.812 million to ratepayers.
8. Allowing Edison to recover \$3.081 million for On-Site Generation costs, would reduce the amount of the refund to \$731,000.
9. The existence of \$731,000 of unspent RD&D funds indicates that Edison remained within the total amount authorized for the GRC cycle even with the inclusion of the On-Site Generation Project costs.
10. The Commission stated in D.94-10-041 that Edison should not be denied recovery of the On-Site Generation Project costs because it was the Commission's decision to expense rather than capitalize the costs.
11. The retroactive inclusion of On-Site Generation Project costs in the annual calculation of the balancing account amounts, as DRA recommends, would severely limit Edison's recovery of the costs due to the timing of those expenditures.
12. The Commission's acknowledgment and statement in D.94-10-041 that it assumed Edison would have timed its expenditures differently if it had known that these projects were subject to the one-way balancing account, effectively forecloses DRA's interpretation.

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13. Edison's balancing account reconciliation methodology is consistent with the intent of D.94-10-041.

14. DRA's protest should be denied.

15. Edison should refund to ratepayers unspent RD&D funds from its 1988-1991 GRC cycle by transferring \$731,000 from its RD&D one-way balancing account, plus interest, to its ERAM balancing account.

16. Edison filed Advice Letter 938-E-C on February 16, 1996, revising the accrued interest calculations provided in Advice Letter 938-E-B for the period January 1, 1992 through March 31, 1995.

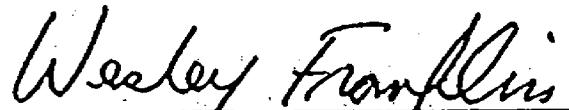
17. Edison should further revise its interest calculations to include additional interest accrued from April 1, 1995 through the date of the transfer to its ERAM balancing account.

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THEREFORE, IT IS ORDERED that:

1. Southern California Edison Company is authorized to refund to ratepayers unspent RD&D funds of \$731,000 from its 1988-1991 General Rate Case cycle by transferring the funds, plus interest, from its Research Development, and Demonstration one-way balancing account to its Electric Revenue Adjustment Mechanism balancing account by April 13, 1996.
2. Southern California Edison Company shall revise the interest calculations provided in Advice Letter 938-E-C to include additional interest accrued from April 1, 1995 through the date of the transfer to its Electric Revenue Adjustment Mechanism balancing account.
3. The Division of Ratepayer Advocates' protest of Advice Letter 938-E-B is denied.
4. Advice Letter 938-E-B, as supplemented by Advice Letter 938-E-C, shall be marked to show that it was approved by Commission Resolution E-3424.
5. This Resolution is effective today.

I hereby certify that this Resolution was adopted by the Public Utilities Commission at its regular meeting on March 13, 1996. The following Commissioners approved it:



WESLEY M. FRANKLIN  
Executive Director

DANIEL Wm. FESSLER  
President  
P. GREGORY CONLON  
JESSIE J. KNIGHT, Jr.  
HENRY M. DUQUE  
JOSIAH L. NEPPER  
Commissioners