

PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

ENERGY DIVISION

RESOLUTION E-3484

March 18, 1997

RESOLUTION

RESOLUTION E-3484. SOUTHERN CALIFORNIA EDISON COMPANY REQUESTS AUTHORIZATION TO MODIFY ITS RESEARCH, DEVELOPMENT AND DEMONSTRATION ROYALTIES MEMORANDUM ACCOUNT TO INCLUDE A TECHNOLOGY COMMERCIALIZATION INCENTIVE PROCEDURE.

BY ADVICE LETTER 1197-E FILED ON NOVEMBER 27, 1996.

SUMMARY

1. By Advice Letter 1197-E, Southern California Edison Company (Edison) requests authorization to revise the Research, Development and Demonstration Royalties (RDDR) Memorandum Account in Preliminary Statement, Part N of its tariffs, to include a Technology Commercialization Incentive Procedure (TCIP).
2. No protests were filed. A letter in support was received from the Office of Ratepayer Advocates (ORA).
3. This Resolution approves Advice Letter 1197-E as filed.

BACKGROUND

1. In Decision (D.) 91-12-076, the Commission ordered Edison to establish an interest bearing memorandum account to record royalties, licensing fees and other revenues attributable to customer-funded research, development, and demonstration (RD&D) programs.¹ The account balance would be returned to customers in subsequent general rate case proceedings.
2. The account was named the RDDR Memorandum Account and was established in Preliminary Statement, Part N, of Edison's tariffs.

¹ Edison's customers fund RD&D programs through an RD&D Balancing Account. Funds in this account are either spent on RD&D or returned to customers at the end of a given rate case cycle.

3. In Advice Letter 1197-E, Edison requests authorization to revise the RDDR Memorandum Account to include a TCIP. The TCIP is a revenue sharing mechanism to allow and encourage Edison's shareholders to commercially develop customer-funded technologies. Under the TCIP, payments for royalties, licenses and other revenues attributable to Edison's RD&D activities would be shared with Edison's customers at predetermined levels and credited annually to the RDDR Memorandum Account.
4. ORA filed a letter dated February 28, 1997 recommending the Commission adopt the TCIP mechanism proposed in Advice Letter 1197-E.

NOTICE

1. Advice Letter 1197-E was 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. No protests were received by the Energy Division.

DISCUSSION

1. Edison's customer-funded RD&D Program has created technological solutions which have lowered system costs and increased system reliability to Edison's customers. The potential exists to further leverage these technological innovations for the benefit of Edison's customers through nonutility product commercialization. Under the current regulatory framework, however, utilities are not authorized to spend customer RD&D funds on commercialization efforts and shareholders have little incentive to pursue commercialization of products.²

2. In Advice Letter 1197-E, Edison proposes a TCIP to allow and encourage shareholders to further develop customer-funded RD&D technologies and to enable its customers to share the revenues from commercialization. The TCIP is structured for either "active" or "passive" commercialization efforts. Active means placing new shareholder funds (entirely by Edison or jointly with a third party) at risk, assuming a direct technical and management role in the market implementation process, and/or causing shareholders to retain residual liability risk. For purposes of establishing a brightline standard for active participation, the minimum threshold for shareholder investment is 25% of the customer's RD&D balancing account expenditures prior to

² Under existing regulatory policies, if utility shareholders wish to pursue commercialization of an innovation developed through the RD&D Balancing Account, it must first "buy" the intellectual property rights from customers. This is accomplished through a formal regulatory filing pursuant to Section 851 of the Public Utilities Code.

the decision to commercialize the technology. If shareholder investment exceeds 25% of the amount customers spent, the participation is considered active. Passive participation involves situations in which commercialization is being performed by an independent third party pursuant to a licensing/royalty, franchise fee or other similar arrangement and/or where the shareholder investment is less than 25% of the threshold.

3. Because the risk/return profiles for active and passive commercialization efforts are different, the TCIP provides a different sharing of gross revenues for each. The details of the TCIP mechanism for active and passive participation are fully described in Attachment B to Advice Letter 1197-E.
4. ORA worked with Edison to develop the TCIP mechanism proposed in Advice Letter 1197-E, and believes that it balances customer and shareholder interests by sharing revenues from the commercialization of projects and insulating customers from financial risk.
5. The Energy Division has reviewed the TCIP mechanism proposed in Advice Letter 1197-E and believes it provides shareholders an incentive to develop customer-funded technologies commercially to their full potential, strikes a balance between customer and shareholder interests by sharing revenues for the commercialization of technologies on a pre-determined basis, and insulates customers from financial risk. In the absence of the TCIP, products would most likely not be commercialized, and the potential for additional revenues allocated to customers associated with these activities would not materialize.
6. Edison requests the TCIP to be authorized for an initial six-year period, after which the Commission could review the procedure and make changes if it found them necessary. The Energy Division believes this is reasonable as it gives the Commission an adequate period to assess the merits of the TCIP. During the effective period for the TCIP, Edison agrees to notify the Commission staff in writing of any projects it intends to subject to the TCIP.

FINDINGS

1. By Advice Letter 1197-E, Edison requests authorization to revise the RDDR Memorandum Account in Preliminary Statement, Part N, to include a TCIP.
2. No protests to Advice Letter 1197-E were received.
3. ORA recommends the Commission adopt the TCIP mechanism proposed in Advice Letter 1197-E.
4. Edison's proposed TCIP is a revenue sharing mechanism to allow and encourage Edison's shareholders to commercially develop customer-funded technologies.
5. Under the TCIP, payments for royalties, licenses and other revenues attributable to

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Edison's RD&D activities would be shared with Edison's customers at pre-determined levels and credited annually to the RDDR Memorandum Account. The specific details of the TCIP mechanism are described in Attachment B to Advice Letter 1197-E.

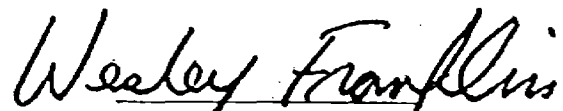
6. The TCIP proposed in Advice Letter 1197-E provides shareholders an incentive to commercially develop customer-funded technologies to their full potential, strikes a balance between customer and shareholder interests by sharing revenues for the commercialization of technologies on a pre-determined basis, and insulates customers from financial risk.
7. In the absence of the TCIP, products would most likely not be commercialized, and the potential for additional revenues allocated to customers associated with these activities would not materialize.
8. The TCIP proposed in Advice Letter 1197-E should be authorized for an initial six-year period, after which the Commission should review the procedure and make changes, if necessary.
9. Edison should notify the Commission Energy Division staff in writing of any projects it intends to subject to the TCIP during the six-year period.

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THEREFORE, IT IS ORDERED that:

1. Southern California Edison Company is authorized to revise the Research, Development and Demonstration Royalties Memorandum Account in Preliminary Statement, Part N, to include the Technology Commercialization Incentive Procedure requested in Advice Letter 1197-E.
2. The revenue sharing procedures of the TCIP mechanism shall be as specified in Attachment B to Advice Letter 1197-E.
3. Southern California Edison Company shall notify the Commission Energy Division staff in writing of any projects it intends to subject to the TCIP during the six-year period.
4. Advice Letter 1197-E shall be marked to show that it was approved by Commission Resolution E-3484.
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 18, 1997. The following Commissioners approved it:



WESLEY FRANKLIN
Executive Director

P.Gregory Conlon, President
Jessie J. Knight, Jr.
Henry M. Duque
Josiah L. Neeper
Richard A. Bilas
Commissioners