

PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

ENERGY DIVISION*

**RESOLUTION E-3536
JUNE 18, 1998**

RESOLUTION

RESOLUTION E-3536. SOUTHERN CALIFORNIA EDISON COMPANY (EDISON) SEEKS APPROVAL OF ITS 1998 HYDROELECTRIC GENERATION REVENUE REQUIREMENT. APPROVED AS MODIFIED.

BY ADVICE LETTER 1277-E, FILED ON DECEMBER 23, 1997.

SUMMARY

1. By Advice Letter 1277-E, filed on December 23, 1997, Southern California Edison Company (Edison) is requesting approval of its 1998 hydroelectric generation revenue requirement.
2. A timely protest was filed by the Office of Ratepayer Advocates (ORA).
3. ORA protests Edison's allocation of Customer Service & Marketing (CS&I) costs to hydroelectric generation.
4. This resolution adopts Edison's Revenue Requirement as detailed in Advice Letter 1277-E with modification to the hydroelectric's portion of CS&I costs.

BACKGROUND

1. A June 25, 1997 *Joint Ruling of Assigned Commissioner and Administrative Law Judge* requested Edison to use its existing hydroelectric revenue requirement in lieu of its PBR proposal for hydroelectric generation in A.96-07-007.
2. Pursuant to the June 25th ruling, Edison submitted its *Compliance Filing to Establish the Level of Edison's Currently Authorized Hydroelectric Revenue Requirement as the Basis for Future Hydroelectric Ratemaking* on July 1, 1997.

3. Decision (D).97-12-102 ordered Edison to submit to the Energy Division its proposed hydroelectric generation revenue requirement for compliance review.
4. Pursuant to D.97-12-102 Edison filed Advice Letter 1277-E on December 23, 1997, with the Energy Division requesting approval of its estimated 1998 hydroelectric generation revenue requirement.

NOTICE

1. In accordance with Section III, Paragraph G, of General Order No. 96-A, Edison mailed copies of this advice letter to other utilities and interested parties. Public notice of this filing has been made by publication in the Commission's calendar.

PROTESTS

1. A timely protest was filed by ORA on January 5, 1998.
 - ORA protests that "Edison allocated too high a percentage of the \$7.7 million in customer service and marketing costs (CS&I) which are attributable to ... hydroelectric generation, and not enough to nuclear and oil/gas generation."¹ ORA points out that, in the Unbundling Proceeding, "the Commission reduced the utilities' distribution revenue requirements to reflect customer service and marketing costs that are more appropriately allocated to generation."² ORA further contends that "no where in D.97-08-056 did the Commission suggest that this \$7.735 million should be allocated only to coal and hydroelectric generation."³ ORA recommends that Edison's allocation of CS&I costs to hydroelectric generation be \$0.41 million in compliance with D.97-08-056.

¹ ORA protest, p. 1

² ORA protest, p. 1

³ ORA protest, p. 2

Table 1⁴

1998 CS&I Costs Edison Proposal Allocation (\$ 000's)	
Hydroelectric Generation	\$ 2,190
Coal Generation	5,545
TOTAL	\$ 7,735

Table 2⁵

1998 CS&I Costs ORA Proposal Allocation (\$ 000's)	
Hydroelectric Generation	\$ 412
Palo Verde	423
SONGS	3,189
Oil / Gas	2,507
Coal	1,043
QF	112
Misc.	49
TOTAL	\$ 7,735

2. Edison filed a response to ORA's protest on January 12, 1998.

- Edison points out that, in D.97-08-056, the Commission "decline[d] any proposals to change the size of the utilities' total revenue requirements."⁶ It contends that "ORA's recommendation would result in a de facto change in Edison's total revenue requirement because Edison would have no opportunity to recover any CS&I costs allocated to nuclear or oil and gas generation resources"⁷ as these costs were not included in their nuclear cost recovery mechanisms nor in the O&M Service Agreements with the new owners of the oil/gas plants.

DISCUSSION

1. Advice Letter 1277-E raises the issue of the allocation of CS&I costs to hydroelectric generation.
2. In D.97-08-056 the Commission rejected Edison's proposal to allocate to distribution its full request of \$23 million for CS&I costs. For Edison, the Commission transferred \$7.7 million to generation in an effort to more accurately "reflect customer service and marketing costs that are more appropriately allocated to generation."⁸ ORA argues that the Commission's intent was to allocate the \$7.7 million to all generation rather than merely to hydro and coal as Edison has done in its advice letter.

⁴ Edison Attachment A, Supporting Workpapers, Advice Letter 1277-E

⁵ Calculations based on Adopted Edison 1995 General Rate Case Decision Multi-Factor Allocator

⁶ D.97-08-056, slip opinion, p. 9

⁷ Edison reply, p. 2

⁸ D.97-08-056, slip opinion, p. 26

3. Edison's reply points out that the Commission never intended to consider any changes in total revenue requirement. Adopting ORA's suggestion of allocating the \$7.7 million to all generation types would have the effect of changing their total revenue requirement as Edison will be unable to recover the nuclear and oil/gas generation portions.
4. The purpose of D.97-08-056 was to "... unbundle the three utilities' revenue requirements into major functions..."⁹ D.97-12-102 allows for Edison to file for the establishment of its hydroelectric generation revenue requirement. Advice Letter 1277-E was filed pursuant to D.97-12-102 to specifically address the hydroelectric generation revenue requirement.
5. Edison contends that unless it's allowed to allocate the \$7.7 million to hydro and coal generation resources, it will be unable to recover the portions allocated to other generation resources as proposed by ORA. While this argument is compelling, it nonetheless falls outside the scope of this advice letter. There are mechanisms by which Edison may be able to recover the remaining portions of monies allocated to nuclear, oil/gas, QF and misc. For example, the CS&I costs allocated to natural gas could be reallocated back to the other energy sources once divestiture is completed in Edison's divestiture proceeding similar to the reallocation of fixed A&G costs and nuclear CS&I costs could be reallocated by filing a petition to modify the ICIP decision.
6. While it is not explicitly stated in D.97-08-056 how CS&I costs should be allocated to all generation types, the Energy Division agrees with ORA that nowhere in D.97-08-056 did the Commission suggest that the \$7.7 million should be allocated only to hydroelectric and coal generation. Additionally, such allocation would have been inconsistent with the Commission's stated goal of retaining existing levels of overall risk.¹⁰
7. The Energy Division agrees with ORA's proposal to allocate the CS&I costs of \$7.7 million to all generation types and specifically, \$0.41 million, to hydroelectric generation.

FINDINGS

1. Edison filed Advice Letter 1277-E on December 23, 1997, pursuant to D.97-12-102 requesting approval of its 1998 hydroelectric generation revenue requirement effective January 1, 1998.
2. A timely protest was filed by ORA.

⁹ D.97-08-056, slip opinion, p. 4

¹⁰ D.97-08-056, slip opinion, p. 10

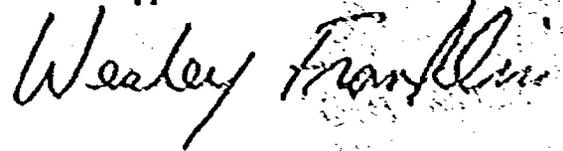
3. ORA raised the issue of Edison's allocation of CS&I costs to only hydroelectric and coal generation.
4. Edison responded to ORA's protest on January 12, 1998.
5. Edison argues that allocating CS&I costs as ORA has proposed would result in a de facto change in its total revenue requirement.
6. Edison's argument that it will be unable to recover the nuclear and oil/gas CS&I costs if ORA's proposal is adopted falls outside the scope of this advice letter. There are other mechanisms Edison could use to recover other costs.
7. Decision 97-08-056 did not state that CS&I costs should be allocated only to hydroelectric and coal generation. It specified that \$7.7 million should be allocated to generation.
8. ORA's protest should be granted.
9. Edison should file a Supplemental Advice Letter that incorporates ORA's recommendation of allocating generation CS&I costs.

June 18, 1998

THEREFORE, IT IS ORDERED THAT:

1. Edison's Advice Letter 1277-B is approved with modification to CS&I costs as calculated by ORA.
2. Edison shall file a Supplemental Advice Letter to AL 1277-E within 10 days of the effective date of this resolution to incorporate the modification in Appendix A of this Resolution. This Advice Letter will be deemed effective January 1, 1998, after Energy Division has reviewed the supplemental Advice Letter for compliance with this Resolution.
3. ORA's protest is granted.
4. This resolution is effective today.

I hereby certify that this Resolution was adopted by the Public Utilities Commission at its regular meeting on June 18, 1998. The following Commissioners approved it:



WESLEY M. FRANKLIN
Executive Director

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

APPENDIX A

1998 Hydro Expenses (\$ 000's)	
Operations & Maintenance Expenses	\$ 25,474
Administrative & General Expenses	12,688
<i>CS&I Expenses</i>	412
Taxes - Expense-Related	6,668
Revenue Credits	(1,661)
TOTAL HYDRO EXPENSES	\$ 43,581