

PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

ENERGY DIVISION

**RESOLUTION E-3544
JULY 23, 1998**

RESOLUTION

RESOLUTION E-3544. APPROVES WITH MODIFICATIONS ESTABLISHMENT OF A TRANSMISSION REVENUE REQUIREMENT RECLASSIFICATION MEMORANDUM ACCOUNT (TRRRMA) FOR SOUTHERN CALIFORNIA EDISON COMPANY (EDISON), AND SAN DIEGO GAS & ELECTRIC COMPANY (SDG&E). APPROVED WITH MODIFICATIONS.

**BY EDISON ADVICE LETTER 1298-E, DATED MARCH 20, 1998
SDG&E ADVICE LETTER 1088-E, DATED MARCH 31, 1998**

Summary

Edison filed Advice Letter 1298-E on March 20, 1998, requesting authority to establish a new Transmission Revenue Requirement Reclassification Memorandum Account (TRRRMA). SDG&E also filed Advice Letter 1088-E on March 31, 1998, seeking approval to establish a new TRRRMA.

The Office of Ratepayer Advocates (ORA) filed protests to both advice letters.

ORA's protest is denied. Allowing Edison and SDG&E to track certain costs that are rejected by the Federal Energy Regulatory Commission (FERC) into TRRRMAs for future recovery in distribution rates is consistent with Decision (D.) 97-08-056. SDG&E's and Edison's Advice Letters are approved with modifications.

Background

On March 20, 1998, Edison filed Advice Letter 1298-E to establish a TRRRMA. In the Advice Letter, Edison notes that the purpose of the TRRRMA is to track the revenue requirements associated with those costs requested by Edison for recovery in transmission rates in Docket No. ER97-2355-000 which the FERC may, at a later date, not allow to be included in the transmission rates. Because a final FERC decision was not expected before April 1, 1998, Edison requested an effective date of April 1, 1998 in order to mitigate the retroactive ratemaking concerns. Edison further noted that it "recognizes that Commission approval of memorandum accounts does not authorize recovery of costs, but instead allows the company the opportunity to subsequently request rate recovery of the amounts recorded in the memorandum

July 23, 1998

account in the future." Edison notes that amounts tracked in this memorandum account will be considered in a future Commission proceeding to determine the appropriateness of including them in distribution rates. Edison believes that establishing a TRRRMA is consistent with the direction provided in the Ratesetting/Unbundling Decision, D.97-08-056.

SDG&E filed Advice Letter 1088-E on March 31, 1998, seeking authority to establish a new TRRRMA in order to track the revenue requirements associated with those costs requested by SDG&E for recovery in transmission rates in Docket No. ER97-2364-000, which the FERC may, at a later date, not allow to be included in transmission rates. SDG&E notes that its request for establishing the TRRRMA is consistent with the direction provided in D.97-08-056.

Notice

Notice of Edison's Advice Letter 1298-E and SDG&E's Advice Letter 1088-E were made by publications in the Commission Daily calendar and by mailing copies of the filings to adjacent utilities and interested parties and the Service List in Application (A.) 96-12-019, et al.

ORA filed a late protest on April 13, 1998 to Edison's Advice Letter 1298-E stating that it did not receive Edison's advice letter and only noticed Edison's filing after reviewing SDG&E's Advice Letter 1088-E which was filed on March 31, 1998, seeking to establish a TRRRMA for SDG&E. With respect to ORA's late protest, Edison responded that it had served its Advice Letter on the GO 96-A service list as well as the Ratesetting service list (A.96-12-009, et al.) and Elena Schmid, Director of ORA. ORA also filed a protest to SDG&E's Advice Letter.

Although we believe that Edison's Advice Letter was properly served on ORA, ORA's tardiness in filing a protest to Edison's Advice Letter has created no harm, and ORA's late protest should be allowed.

Protests

ORA believes that Edison's request to establish a TRRRMA is inconsistent with D.97-08-056. ORA states in its protest that the Commission, in the rate setting decision, has rejected recovery through distribution rates of the transmission revenue that is not authorized by FERC. ORA adds that the Commission in the ratesetting decision stated that it would only grant such a request if the utilities show that the specific costs are both reasonable and associated with distribution activities. Furthermore, the Commission identified that the utilities may have an opportunity to make their case with specific revenue requirement changes in the PBR proceedings or for PG&E, its general rate case. ORA believes that the establishment of the TRRRMA, as requested by Edison, "is overly broad, and it would authorize the accumulation of interest on these costs without any showing of finding of reasonableness." ORA raises similar concerns in its protest to SDG&E's Advice Letter 1088-E.

July 23, 1998

Edison and SDG&E responded to ORA's protests, asserting that they believe their approach is consistent with D.97-08-056.

Discussion

ORA has raised a concern regarding the accumulation of interest on the costs included in the tracking accounts. Edison does not agree with ORA's concern about the accumulation of interest on these costs without any showing of finding of reasonableness. Edison notes that the establishment of the memorandum account merely allows for the tracking of costs including interest. Edison believes that its approach is consistent with other Commission-approved memorandum accounts, and that only upon a Commission finding of the reasonableness of the costs and the associated interest, will Edison reflect these amounts in distribution rates. SDG&E also argues that ORA's protest on the accumulation of the interest on these costs is premature. SDG&E notes that "the Commission will, at the proper time, decide whether or not it is reasonable to allow the recovery of interest on these costs." SDG&E believes that until then it is appropriate to allow the TRRRMA to track what the amount of interest would be, if and when the Commission grants such relief. As both Edison and SDG&E have noted, the Commission can later decide the recovery of interest for the costs in the tracking accounts. Thus we are less concerned with accumulation of interest on these costs at this time.

In response to ORA's concern that Edison's request for establishment of the TRRRMA is overly broad, Edison responds that "it defined the scope of the TRRRMA broadly because at this time is not clear how FERC will determine which costs are not includable in transmission rates." Edison offers to work with the Energy Division's staff to revise the tariff language to reflect the Commission's intent as stated in the Decision. SDG&E also responds that it is necessary to establish a TRRRMA to track certain costs, such as load dispatch and ISO/PX related costs that FERC has concluded to be distribution, in order to be able to reallocate them to distribution. In addition, SDG&E notes that "such accounts are very commonly used due to the prohibition against retroactive ratemaking, and absolutely nothing about this account would guarantee recovery of the costs in question until the Commission rules on them."

Absent the TRRRMA, Edison asserts that it would be deprived of the opportunity to recover reasonable distribution-related costs due to the fact that FERC has adopted the Transmission Revenue Requirement subject to refund.

As both Edison and SDG&E have correctly noted in their responses to ORA's protests, the mere establishment of these accounts do not guarantee recovery of the costs. A TRRRMA would only set up a mechanism for the utilities to track certain costs that are disallowed by FERC. Amounts booked into these accounts will be considered in future proceedings, where the Commission will have an opportunity to review their appropriateness for recovery, as well as address relevant ratemaking issues. Therefore, the sole purpose of the TRRRMA would be to track certain costs that are disallowed by FERC without any determination of their recovery. This approach is consistent with D.97-08-056. We agree with Edison that because utilities are currently incurring

July 23, 1998

these costs, denying the establishment of a TRRRMA would put them at risk for recovery of these costs and could deny them the opportunity to recover, in future proceedings, costs that are distribution-related and reasonable.

On page 16 of D.97-08-056, the Decision stated that we will revisit the utility revenue requirements at a later date, to the extent necessary. Furthermore, on page 17 of D.97-08-056, the Decision stated that:

"If FERC concludes that these load dispatch and ISO/PX related costs are distribution costs, rather than transmission costs, then we will reallocate these costs to distribution, consistent with FERC's findings."

The load dispatch and ISO/PX costs were not identified as the only costs that could be reallocated under certain circumstances, but were identified as specific possibilities. Therefore, in order to provide the opportunity for the utilities to make a showing that the costs which are deemed non-transmission related by FERC may be reasonable distribution costs, we allow the utilities to establish a TRRRMA with the sole purpose of tracking such costs for future review. Consistent with the above statement, the scope of the TRRRMA will be limited to certain costs that meet the following criteria:

1. Only costs categorized by FERC to be non-transmission
2. Only costs not disallowed by FERC or this Commission

No costs are allowed to be booked into the TRRRMA that would not be eligible for eventual recovery in the PBR proceedings. For example, the Commission established a separate process for considering reallocating fixed Administrative and General (A&G) costs in D.97-08-056. Thus the TRRRMA should not include such costs or any other costs that do not meet the above mentioned criteria. Costs may be booked into the TRRRMA from the effective date of this Resolution. However, only costs meeting the above criteria may be considered for recovery in the PBR proceedings. Therefore, Edison and SDG&E should reconcile the TRRRMAs to be consistent with relevant FERC decisions. For example, if costs are booked into a TRRRMA but are in fact determined to be transmission costs by FERC, or otherwise would not be eligible for PBR recovery, such as FERC disallowance, these costs and any associated interest should be taken out of the TRRRMA and thus would not be eligible for recovery in the PBR proceedings. Further, in the PBR proceedings, the Commission will again consider whether the costs in TRRRMA are properly classified as distribution.

On the other hand, it is possible that certain costs already included in the utilities' distribution revenue requirements will be deemed to be transmission by FERC. In that case, the utilities would double recover; once through the distribution and again through the transmission rates. We remove the potential for double recovery of the same costs by requiring the utilities to record any such costs, already included in distribution but later deemed by FERC to be transmission, as a reduction to their TRRRMAs.

July 23, 1998

Therefore Edison's and SDG&E's requests to establish a TRRRMA are granted with the modifications noted herein. ORA's protest is denied.

Findings

1. Edison filed Advice Letter 1298-E on March 20, 1998, requesting authority to establish a new Transmission Revenue Requirement Reclassification Account (TRRRMA).
2. SDG&E filed Advice Letter 1088-E on March 31, 1998, seeking approval to establish a new TRRRMA.
3. ORA filed a late protest to Edison's Advice Letter 1298-E and a timely protest to SDG&E's Advice Letter 1088-E.
4. Edison and SDG&E filed responses to ORA's protests.
5. Establishment of a TRRRMA does not allow for automatic recovery of costs booked into that account. Cost recovery and ratemaking issues associated with the amounts entered into that account will be considered in future proceedings.
6. Edison's and SDG&E's requests to establish TRRRMAs are consistent with D.97-08-056, because the costs booked into these accounts will be subject to review by the Commission for future recovery.
7. In order to provide the opportunity for the utilities to make a showing that the costs which are deemed non-transmission related by FERC may be reasonable distribution costs, the utilities should be allowed to establish a TRRRMA with the sole purpose of tracking such costs for future review.
8. The scope of the TRRRMA should be limited and the costs booked into the TRRRMA should meet the following criteria:
 - Only costs categorized by FERC to be non-transmission
 - Only costs not disallowed by FERC or this Commission
9. No costs should be allowed to be booked into the TRRRMA that would not be eligible for eventual recovery in the PBR proceedings.
10. Cost may be booked into TRRRMA from the effective date of this Resolution.
11. Edison and SDG&E should reconcile their TRRRMAs to be consistent with relevant FERC decisions.

July 23, 1998

12. It is possible that certain costs already included in the utilities' distribution revenue requirements will be deemed to be transmission by FERC and the utilities would double recover.
13. The utilities should be required to record any such costs, already included in distribution but later deemed by FERC to be transmission, as a reduction to their TRRRMAs.
14. ORA's protest that the proposed tracking accounts are inconsistent with D.97-08-056 should be denied.
15. Edison's Advice Letter 1298-E and SDG&E's Advice Letter 1088-E should be approved with modifications as specified herein.
16. Within 20 days of the effective date of this Resolution, Edison and SDG&E should file Supplemental Advice Letters to incorporate the modifications specified in this Resolution.
17. The effective date of the Advice Letters should be the effective date of this Resolution.

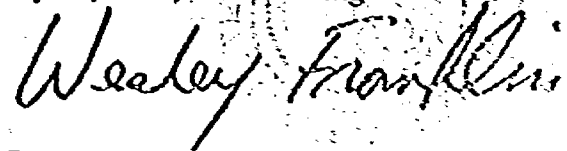
Therefore it is ordered that:

1. Southern California Edison Company's Advice Letter 1298-E and San Diego Gas & Electric Company's Advice Letter 1088-E are approved with the following modifications:
 - a. Costs booked into the Transmission Revenue Requirement Reclassification Memorandum Account (TRRRMA) shall meet the following criteria:
 - Only costs categorized by FERC to be non-transmission
 - Only costs not disallowed by FERC or this Commission
 - b. Costs already included as part of the authorized distribution revenue requirement but later deemed to be transmission by FERC shall be recorded as a reduction to the TRRRMA and therefore not collected in the distribution revenue requirement.
 - c. No costs shall be allowed to be entered into the TRRRMA that would not be eligible for recovery in the PBR proceedings.
 - d. Costs shall be booked into the TRRRMA as of the effective date of this Resolution.
 - e. Southern California Edison Company and San Diego Gas & Electric Company shall reconcile their TRRRMAs to be consistent with relevant FERC decisions.

July 23, 1998

2. Should Southern California Edison Company and San Diego Gas & Electric Company choose to establish new TRRRMA as modified, they shall file, within 20 days, supplements to their Advice Letters consistent with this Resolution.
3. If Southern California Edison Company or San Diego Gas & Electric Company does not act within the 20 days, its respective Advice Letter is rejected.
4. The effective date of the Advice Letters will be the effective date of this Resolution, after the Energy Division has reviewed them for consistency with this Resolution.
5. ORA's protest is denied.
6. This Resolution is effective today.

I certify that the foregoing resolution was duly introduced, passed, and adopted at a conference of the Public Utilities Commission of the State of California held on July 23, 1998; the following Commissioners voting favorably thereon:



WESLEY M. FRANKLIN
Executive Director

RICHARD A. BILAS
President
P. GREGORY CONLON
JESSIE J. KNIGHT, JR.
HENRY M. DUQUE
JOSIAH L. NEEPER
Commissioners