

PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

ENERGY DIVISION

**RESOLUTION E-3547
DECEMBER 17, 1998**

RESOLUTION

RESOLUTION E-3547. SOUTHERN CALIFORNIA EDISON COMPANY REQUESTS APPROVAL TO REVISE ITS RATE COMPONENTS TO REFLECT A DEVERS-PALO VERDE 2 (DPV2) SURCHARGE AND AN EQUAL CREDIT TO THE COMPETITION TRANSITION CHARGE (CTC) UNDER ITS GENERATION COMPONENT TO MAINTAIN THE RATE FREEZE MANDATED BY ASSEMBLY BILL (AB) 1890. APPROVED.

BY ADVICE LETTER 1301-E, FILED ON MARCH 30, 1998.

SUMMARY

1. By Advice Letter (AL) 1301-E, Southern California Edison Company (SCE) requests approval to revise its tariff Rate Components Table to reflect a Devers-Palo Verde 2 (DPV2) Surcharge (Surcharge). SCE also requests an equal reduction to its Competition Transition Charge (CTC) under the generation component to maintain the rate freeze mandated by Assembly Bill (AB) 1890.¹
2. One timely protest was filed by The Utility Reform Network (TURN) on April 20, 1998 objecting to the allocation approach taken by SCE. TURN requests that shareholders and ratepayers share the revenue amount equally, following the Federal Regulatory Commission's (FERC) policy decision on the recovery of the DPV2 revenue.
3. This resolution approves Advice Letter 1301-E on the grounds that SCE's approach is consistent with Decision (D.) 97-11-073.

BACKGROUND

1. D. 97-11-073 addressed a number of modification petitions to D.97-08-056, which directed the electric utilities to unbundle their revenue requirements consistent with AB 1890. SCE requested authorization to accelerate its three-year cost recovery of the abandoned DPV2 transmission line approved under D.97-05-081, since the Commission did not approve its balancing account proposal under D.97-08-056 for recovery of these costs. The Commission

¹ Assembly Bill 1890, Stats. 1996, Ch. 854.

December 17, 1998

advised SCE to apply to the FERC for cost recovery by December 31, 1997, since these costs were directly related to transmission, and since the FERC was now the appropriate authority to grant cost recovery of the revenues through transmission rates. The Commission added:

"If the FERC permits the costs to be included in transmission rates, we will direct Edison to reduce the ERAM balance accordingly. If the FERC does not permit them to be included in transmission rates, we will permit their recovery in Commission jurisdictional rates on the basis that they are associated with abandoned plant."²

2. Pursuant to the Commission decision, SCE filed a request with the FERC on December 31, 1997 (Docket No. ER98-1261-000) to approve a surcharge of \$0.00009 per kWh applicable to retail customers under SCE's Transmission Owner Tariff (TO). This rate was calculated using the remaining DPV2 balance to be amortized, \$6.704 million, divided by forecast 1998 sales.

3. On February 25, 1998 the FERC ordered that the costs of the DPV2 be shared equally between shareholders and ratepayers, denying any consideration of transmission rate recovery of \$3.352 million, or the half attributable to shareholders. On March 25, 1998, SCE made a FERC filing to reflect its ruling; the Surcharge is \$.00004 /kWh, or \$3.352 million, subject to refund, and effective April 1, 1998. A final FERC determination on this surcharge and on all other transmission revenues proposed by SCE will be made under a consolidated proceeding for SCE's transmission rate case, Docket No. ER97-2355-000.

4. By AL 1301-E, SCE requests recovery of the FERC-accepted 50%, or \$3.352 million, through Commission jurisdictional rates and a \$3.352 million credit to the CTC, under the generation rate component.

NOTICE

1. Notice of AL 1301-E was made by publication in the Commission's calendar and by mailing copies of the filing to adjacent utilities and interested parties on March 30, 1998.

PROTEST

1. TURN protested AL 1301-E on the basis of the cost recovery proposed by SCE, which allocates half of the costs to ratepayers through the Electric Revenue Adjustment Mechanism (ERAM) balancing account³, and the remaining half recovered through the FERC TO tariff.

² Decision 97-11-073, mimeo p.11

³ The ERAM balancing account has been merged into the Transition Cost Balancing Account (TCBA) under electric restructuring. See D.97-10-057, O.P.2, mimeo p.25.

December 17, 1998

TURN states that since the FERC ordered that the DPV2 revenue requirement be shared 50/50 between shareholders and ratepayers, "the entire adjustment to the ERAM balancing account provided for in D.97-11-073 [should] be reversed." TURN proposes that shareholders shoulder the 50% remaining costs premised on the FERC order.

2. TURN also protests SCE's proposed treatment of the offsetting adjustments between SCE's CTC and the Transmission Revenue Balancing Account Adjustment (TRBAA). TURN argues that allowing SCE to reduce the CTC with the transmission surcharge credit from the FERC TO rate, provides SCE shareholders with cost recovery opportunities they would not otherwise have had.

3. SCE responded to TURN's protest on April 30, 1998, stating that AL 1301-E complies with Decisions 97-05-081 and 97-11-073.

DISCUSSION

1. The DPV2 revenue issue centers on the timing and the placement of revenues between the Transmission component, which has yet to be decided by the FERC, the ERAM balancing account, the TRBAA, and CTC, located under the generation component.

2. In California Independent System Operator Corporation et al., 82 FERC Paragraph 61, 174 (1998), the FERC has ruled that half of the requested amount may be recoverable through its transmission rates, subject to refund, and denies recovery consideration of the shareholder's half through the TO rate. SCE has returned to the Commission requesting ratepayer recovery of the FERC-identified, ratepayer's half as a Surcharge, increasing the TRBAA rate and an equal reduction in the CTC rate under the generation component.

3. In D.97-11-073 the Commission states:

"The costs of the transmission system are appropriately included in transmission rates. Nevertheless, it is not our intention to deny Edison an opportunity to recover legitimate costs associated with plant which was ultimately not constructed and included in rate base. We will permit Edison to include all of the authorized costs in the ERAM account in 1997 but will permit their recovery only under certain conditions. Edison must file with the FERC to include these costs in transmission rates no later than December 31, 1997. If the FERC permits the costs to be included in transmission rates, we will direct Edison to reduce the ERAM balance accordingly. If the FERC does not permit them to be included in transmission rates, we will permit their recovery in Commission jurisdictional rates on the basis that they are associated with abandoned plant. The FERC has stated its intent to approve the transmission rates proposed by the utilities in anticipation of direct access, subject to refund. Therefore in order to assure that these

December 17, 1998

costs are not recovered twice, we will not permit them to be recovered in Commission jurisdictional rates until and unless the FERC has issued an order stating that it will not permit these costs to be included in transmission rates."⁴

4. TURN requests the Commission adopt the FERC's policy by denying recovery of revenues this Commission previously approved. TURN states that since the FERC ordered that the DPV2 revenue requirement be shared 50/50 between shareholders and ratepayers, "the entire adjustment to the ERAM (Electric Revenue Adjustment Mechanism) balancing account provided for in D.97-11-073 [should] be reversed."

5. SCE has not sought a reduction to its ERAM balancing account under AL 1031-E. SCE states that it will make the appropriate adjustment to its 1997 ERAM balance to reflect the DPV2 amount when the FERC issues its decision. In D.97-11-073, the Commission stated that it will allow an adjustment to the ERAM balancing account when the FERC renders a decision in its transmission rate case. Since the FERC transmission case is still pending, the Commission's condition concerning the ERAM balance remains open. TURN's request for a ruling from the Commission regarding disposition of the ERAM balance and cost recovery from shareholders is beyond the scope of this advice letter. TURN's request should be denied.

6. The cost recovery SCE seeks under this advice letter is for the 50% of the accelerated ratepayer balance which the FERC will consider allowing SCE to recover under transmission rates. SCE has proposed recovery of this amount as a rate increase under the TRBAA, with an equal, offsetting amount recovered as a reduction to CTC under the generation component to retain the frozen rates. SCE anticipates that recovery of the \$3.3 million will be completed by March 31, 1999.

7. TURN's objects to SCE's proposed treatment of the balance, stating that the offsetting adjustment between the TRBAA and CTC provides SCE shareholders with cost recovery opportunities they would not otherwise have had. SCE has followed its FERC filing here by reflecting the DPV2 amount under the TRBAA as an amount associated with transmission and, as with the transmission charge component, subject to refund. In order to maintain the rate freeze mandated under AB1890 and Public Utilities Code Section 368, SCE has entered a credit to the CTC under the generation component to counterbalance the TRBAA charge. No other appropriate component is available to enable the offsetting credit, and TURN provides no alternative solution.

8. SCE has complied with the conditions ordered under D.97-11-073. Therefore, SCE's Advice Letter 1301-E should be approved. When the recovery has been met, SCE should file another advice letter to remove the DPV2 surcharge in the TRBAA and the credit to the CTC.

⁴ Decision 97-11-073, mimeo p.11

FINDINGS

1. D. 97-11-073 directed SCE to file its request for recovery of the Devers-Palo Verde 2 abandoned plant with the FERC. SCE complied with this ruling, filing a request with the FERC on December 31, 1997.
2. On February 25, 1998, the FERC ruled that half of the original amount was allowable under the transmission tariff paid by ratepayers. The FERC attributed the remaining half to shareholders, denying recovery through transmission rates. On March 25, 1998, SCE filed a revised Surcharge with the FERC to reflect its ruling. The Surcharge is \$.00004 /kWh, subject to refund and effective April 1, 1998.
3. SCE filed AL 1301-E on March 30, 1998, requesting approval to revise its rate components for accelerated cost recovery of its DPV2 abandoned plant and an equal credit to its CTC, under the generation component.
4. TURN protested AL 1301-E, requesting the Commission to honor the FERC's ruling, eliminating 50% of the funds charged to ratepayers under the ERAM balance.
5. SCE has not sought a reduction to its ERAM balancing account under this advice letter. TURN's recommendation that the Commission reverse the full ERAM balance containing the DPV2 revenues is beyond the scope of this advice letter filing.
6. In order to maintain the rate freeze mandated under AB1890 and Public Utilities Code Section 368, SCE has entered a credit to the CTC under the generation component to counterbalance the TRBAA charge. No other appropriate component is available to enable the offsetting credit, and TURN provides no alternative solution.
7. SCE has complied with Commission directions contained in D.97-11-073. Advice Letter 1301-E should be approved. TURN's protest should be denied.

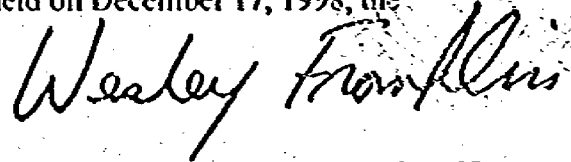
THEREFORE IT IS ORDERED THAT:

1. Southern California Edison's request to revise its rate components to reflect a Devers-Palo Verde 2 surcharge and an equal and opposite change in CTC under the generation component to maintain the rate freeze is adopted.

December 17, 1998

2. TURN's protest is denied.
3. Southern California Edison Advice Letter 1301-E shall be marked approved effective April 1, 1998, coincident with the formal start date of the Independent System Operator (ISO) and the FERC jurisdictional transmission rates.
4. Southern California Edison shall file an advice letter to remove the DPV2 Surcharge in the TRBAA and the CTC credit when full cost recovery is made. Full cost recovery should occur prior to March 31, 1999.

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 December 17, 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