

**PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA**

**ENERGY DIVISION**

**RESOLUTION E-3564**

**OCTOBER 8, 1998**

**RESOLUTION**

**RESOLUTION E-3564. REQUEST BY SOUTHERN CALIFORNIA EDISON COMPANY (SCE) TO ESTABLISH THE SANTA CATALINA ISLAND DIESEL FUEL (SCIDF) MEMORANDUM ACCOUNT. APPROVED.**

**BY ADVICE LETTER 1316-E FILED ON MAY 13, 1998 AND ADVICE LETTER 1316-E-A FILED ON JUNE 22, 1998.**

---

**Summary**

Southern California Edison Company (SCE) filed Advice Letter 1316-E on May 13, 1998 to establish the Santa Catalina Island Diesel Fuel (SCIDF) Memorandum Account. SCE supplemented the advice letter in its entirety on June 19, 1998 pursuant to a request by the Energy Division. Advice Letter 1316-E, as supplemented by Advice Letter 1316-E-A is approved effective on the date of this Resolution. The Commission shall determine the appropriate recovery, if any, of the costs tracked in this account in SCE's 1998 Revenue Adjustment Proceeding (RAP), A.98-07-026.

**Background**

Public Utilities Code Section 367(c) establishes that the going forward costs of fuel for electrical generation in the competitive generation market shall be recovered solely from Power Exchange (PX) revenues or from contracts with the Independent System Operator (ISO).<sup>1</sup>

SCE proposed in the ratesetting proceeding, A.96-12-009, et. al., to recover Santa Catalina fuel costs in its proposed Miscellaneous Adjustment Mechanism (MAM), a balancing account that would allow recovery of certain costs related to generation, distribution, public purpose programs, and other functions. D.97-08-056 in that proceeding rejected SCE's MAM account, and reallocated Santa Catalina diesel fuel costs to generation.

On August 21, 1997, SCE filed a petition to modify D.97-08-056, requesting among other things to permit it to recover costs associated with service to Santa Catalina through distribution rates or the competition transition charge (CTC), because Santa Catalina will not be subject to

---

<sup>1</sup> Sections 367(c)(1) and 367(c)(2) identify limited exceptions.

October 8, 1998

competition. ORA opposed SCE's proposal for recovery of Santa Catalina fuel costs. In its response to SCE's petition, ORA stated that the Commission should make it clear that SCE has the burden of proof of proposing an appropriate generation ratemaking treatment for its Catalina generation costs. According to ORA, "until Edison proposes a mechanism for establishing a market price for generation on Catalina, the Commission should apply a rebuttable presumption that this price would at least equal Edison's full unbundled generation cost per kWh (as determined for its overall service area), meaning that there is no residual charge to be recovered through CTC."<sup>2</sup> In D.97-11-073, the Commission conceded SCE's point that Santa Catalina is unlikely to be an attractive market for competitors, but denied SCE's request to modify D.97-08-056. The Commission stated that AB 1890 does not permit it to allocate to distribution the costs associated with generation on the basis that a specified generation market will not be subject to competition, and that the issue of whether Catalina fuel costs are appropriately included in CTC is a matter for its consideration in transition cost proceedings. The Commission also stated that SCE may propose a separate generation rate for Santa Catalina, as ORA proposes.<sup>3</sup>

SCE filed Advice Letter 1316-E on May 13, 1998 to establish the SCIDF Memorandum Account. Monthly entries to the account would include the cost of diesel fuel burned during the month plus the costs of emission trading credits associated with the operation of the Pebbly Beach Generating Station at Santa Catalina Island. SCE's advice letter states that Commission approval of this account does not authorize the recovery of these costs but instead allows SCE the opportunity to subsequently request rate recovery of the amounts recorded in the account consistent with D.97-11-073. In its May 5, 1998 comments on the April 3 Coordinating Commissioner Ruling regarding the scope of the 1998 RAP and annual transition cost proceeding, SCE proposed to include a rate recovery mechanism for Catalina diesel fuel expenses.

Pursuant to a request by the Energy Division, SCE supplemented Advice Letter 1316-E in its entirety on June 22, 1998 to provide clarification on how establishment of the SCIDF Memorandum Account is consistent with the direction provided in D.97-11-073, and why the account is required to implement a separate generation rate on Catalina. In response, SCE's Advice Letter 1316-E-A states that D.97-11-073 allows it to propose ratemaking treatment to collect Catalina diesel fuel expenses. SCE also indicates that the establishment of the SCIDF Memorandum Account is not required in order to implement a separate generation rate for Catalina customers. SCE believes the account is only a mechanism that will allow it to request recovery in the future for the costs entered into the account.

In its 1998 RAP filing, A.98-07-026, SCE proposes to recover Catalina fuel expenses through its transition revenue account (TRA). According to this proposal, SCE would make a one-time transfer of the amount booked to the SCIDF Memorandum Account to the TRA, and the monthly

---

<sup>2</sup> A.96-12-009, et. al., Response of ORA to Petition of SCE to Modify D.97-08-056, September 22, 1997.

<sup>3</sup> D.97-11-073, p. 10.

recorded Catalina fuel expenses would be recovered during the transition period through the TRA.<sup>4</sup>

### Notice

Notice of Advice Letter 1316-E and 1316-E-A was made by publication in the Commission's Daily Calendar and it was distributed to parties in accordance with Section III-G of General Order 96-A.

### Protests

No protests were filed.

### Discussion

Section 367(c) requires that the going forward costs of fuel for electrical generation be recovered from Power Exchange revenues or contracts with the ISO, and does not make exceptions for fuel costs for generating power in isolated areas such as Catalina where the prospects of competition may be limited. In compliance with this section of the statute and Ordering Paragraph 2 of D.97-11-074, SCE's tariffs submitted in Advice Letter 1275-E include the ISO and PX revenue memorandum accounts. Going forward costs associated with the operation of SCE's must-run and non-must-run fossil units, including the costs for fuel and emission credits, are recorded in these accounts.<sup>5</sup>

SCE's proposal to establish the SCIDF Memorandum Account to record the fuel and emission credit costs for generation on Catalina should be approved. Although the statute suggests that these costs should be recovered through revenues from the ISO or PX, merely tracking them in this account does not guarantee their recovery. For example, the Commission recently approved the transmission revenue requirement reclassification memorandum account for SCE and SDG&E in Resolution E-3544. In that case the Commission made it clear that the establishment of that account does not allow for automatic recovery of the costs booked to it, but they would be subject to review by the Commission for future recovery.<sup>6</sup> The same principle applies here. The Commission shall review SCE's proposal for recovery of the costs booked to the SCIDF Memorandum Account in its 1998 RAP.

---

<sup>4</sup> A.98-07-026, Exhibit SCE-1, pp. 90-94.

<sup>5</sup> Costs associated with generation on Catalina are not being recorded in these accounts.

<sup>6</sup> Resolution E-3544, Findings 5, 6, and 7; July 23, 1998.

October 8, 1998

**Findings**

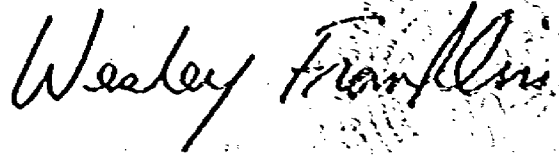
1. SCE filed Advice Letter 1316-E on May 13, 1998 requesting authority to establish the Santa Catalina Island Diesel Fuel Memorandum Account to record the costs for fuel and emission trading credits associated with electrical generation on Catalina Island. SCE supplemented its advice letter in its entirety on June 19, 1998. No protests were received.
2. Public Utilities Code Section 367(a) requires, with limited exceptions, that all going forward costs of fossil plant operation, including fuel, shall be recovered from PX revenues or contracts with the ISO.
3. Establishing the SCIDF Memorandum Account does not guarantee recovery of the costs booked to the account.
4. SCE has proposed in its 1998 RAP application to transfer the costs booked to the SCIDF Memorandum Account to its TRA.
5. The Commission shall determine the appropriate recovery of the costs booked to the SCIDF Memorandum Account in the 1998 RAP.
6. Advice Letter 1316-E as supplemented by 1316-E-A should be approved.

**Therefore it is ordered that:**

1. Advice Letter 1316-E as supplemented by 1316-E-A is approved.
2. This resolution is effective today.

October 8, 1998

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 October 8, 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  
Commissioner