

PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

ENERGY DIVISION

RESOLUTION G-3265

OCTOBER 7, 1999

RESOLUTION

Resolution G--3265. San Diego Gas and Electric Company seeks authorization to transfer unspent Research, Development and Demonstration (RD&D) funds to the Transition Revenue Account. Approved in Part as Modified, and Denied in Part as Moot.

By Advice Letters 1158-E/1142-G filed on April 1, 1999.

Summary

San Diego Gas and Electric Company (SDG&E) requests authority in this Advice Letter to transfer \$5, 467,457 of unspent Research, Development, and Demonstration (RD&D) funds to its Transition Revenue Account.

This portion of SDG&E's request is denied as moot. In Decision (D.)99-06-058 (also known as the "Revenue Adjustment Proceeding" or "RAP Decision") the Commission has already addressed SDG&E's request regarding the disposition of unspent RD&D funds related to electric operations (approximately \$4,193,285 of the \$5, 467,457.) Subject to certain conditions, the Commission approved SDG&E's alternative recommendation in this proceeding to transfer unspent RD&D funds to SDG&E's Transition Cost Balancing Account (TCBA).

The disposition of SDG&E's unspent RD&D funds that are associated with SDG&E's natural gas operations (\$1,274,172 of the \$5, 467,457) was not addressed in D.99-06-058. Consistent with previous Commission decisions (D.88-09-063, D.97-10-057, and Resolutions E-3622 and E-3628) these funds should be returned to ratepayers.

SDG&E should credit the \$1,274,172¹ of unspent RD&D funds to reduce costs in its Gas Fixed Cost Account. This will achieve the same result as directly refunding the unspent RD&D funds to ratepayers.

¹ As of January 1, 1999. This amount will be updated to reflect the on-going collection of interest from January 1, 1999 until the funds are transferred.

Background

In order to ensure that ratepayer funds allocated for RD&D activities are used for their intended purposes, the Commission has established one-way balancing accounts for each of California's major utilities. Under a one-way balancing account, funds are set-aside in a separate account solely for funding RD&D activities. At the end of a General Rate Case (GRC) cycle, any funds allocated for RD&D purposes that have not been spent by the utility are to be refunded to the ratepayers. In this manner, the Commission ensures that RD&D funds are used for their intended purposes and eliminates any incentive for the utility to use RD&D funds for other purposes.

D.88-09-063 established a one-way balancing account for RD&D expenditures for SDG&E. This account is similar in operation to the one-way balancing accounts which the Commission had ordered Pacific Gas and Electric (PG&E) and Southern California Edison (Edison) to establish in D.87-07-021 and D.87-12-066 respectively.²

During the three-year period of 1996 through 1998, SDG&E was authorized \$20,897,236 for RD&D programs but had spent only \$15,857,005 of this amount. This leaves \$5,040,231 of unspent RD&D funds as of January 1, 1999. Combined with interest payments on this amount, SDG&E has a surplus of \$5,467,457³ in its RD&D account.

In this Advice Letter filing, SDG&E requests authority to transfer these unspent RD&D funds to its Transition Revenue Account. SDG&E had made a similar request in its application in the Revenue Adjustment Proceeding (A.98-07-006). In that proceeding, SDG&E requested that unspent RD&D funds should either be transferred to its Transition Revenue Account or alternatively, transferred to SDG&E's Transition Cost Balancing Account (TCBA).

In D.99-06-058 (the RAP Decision) the Commission addressed SDG&E's request regarding the portion of SDG&E's unspent RD&D funds related to electric operations. In the RAP decision, the Commission allowed SDG&E to:

Transfer overcollections [in the RD&D account] to the Transition Cost Balancing Account (TCBA)...with the conditions that (1) the balancing accounts not be closed and remain subject to review, audit, and potential disallowance and, (2) SDG&E shall credit each customer group a share of overcollections using the same cost allocation method used to collect revenue in rates...⁴

The disposition of SDG&E's unspent RD&D funds that are associated with SDG&E's natural gas operations (\$1,274,172 of the \$5,467,457) was not addressed in D.99-06-058.

² See D.88-09-063, Ordering Paragraph #1 and Appendix A (slip opinion, p. 7)

³ This amount will be updated to reflect the on-going collection of interest until the funds are actually transferred.

⁴ D.99-06-058, Ordering Paragraph #3 (slip opinion, p.48)

Notice

Notice of Advice Letter 1158-E/1142-G 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

Advice Letter 1158-E/1142-G was not protested. The issues raised in this Advice Letter, however, were also addressed in SDG&E's RAP proceeding (A.98-07-006). In that proceeding, the Office of Ratepayer Advocates (ORA) opposed SDG&E's request to transfer unspent RD&D funds to the Transition Revenue Account. ORA argued that doing so "would allow SDG&E to recover certain costs for which it has not received approval...and that the Commission [should] defer the disposition of overcollections to the Energy Division's pending review of existing account balances."⁵

Discussion

SDG&E's request in this Advice Letter to transfer unspent RD&D funds associated with its electric operations is denied as moot. The Commission has addressed this issue in D.99-06-058.

D.99-06-058 did not address the disposition of \$1,274,172 of unspent RD&D funds associated with SDG&E's natural gas operations. Consistent with Commission policy and previous Commission decisions, these funds should be returned to ratepayers.

D.88-09-063 established a one-way balancing account for RD&D expenditures for SDG&E in order that unspent funds could be returned to the ratepayers. In D.97-10-057 (also known as the "Streamlining Decision) the Commission reaffirmed that unspent RD&D funds should be returned to the ratepayer.⁶ Under the section "Concluding Principles and Policies", the Streamlining Decision states that:

The utilities shall retain the regulatory accounts relating to DSM, CARE, and RD&D programs for the purpose of assuring that costs allocated to a specific program or function are spent on that program or function, consistent with relevant Commission orders.⁷

Previous Commission orders (in this case D.88-09-063) are clear that funds allocated for RD&D should be either used for RD&D purposes or refunded to ratepayers at the end of the rate case

⁵ D.99-06-058, p. 35

⁶ D.97-10-057, Ordering Paragraph #4

⁷ D.97-10-057, slip opinion, p. 20

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cycle. Resolutions E-3622 (adopted July 22, 1999) and E-3628 (adopted September 2, 1999), reached similar conclusions regarding the disposition of unspent RD&D funds by PG&E.

Prior to the start of electric restructuring, the refund of unspent RD&D funds was accomplished by crediting the Electric Revenue Adjustment Mechanism (ERAM) account. In the past the use of the ERAM account ensured that the funds either were spent on RD&D or returned to ratepayers. Ordering Paragraph #3 of D.97-10-057 eliminated the ERAM account for SDG&E and replaced it with the Transition Revenue Account.

With the elimination of the ERAM account, it is necessary to devise a different mechanism for SDG&E to refund unspent RD&D funds to its ratepayers. Additionally, as the Commission develops different regulatory frameworks for the gas and electric industries, unspent RD&D funds collected from SDG&E's natural gas customers should not be credited toward reducing the bills of SDG&E's electric customers.

Resolution E-3622 addressed the disposition of PG&E's unspent RD&D funds collected from natural gas customers. This Resolution directed PG&E to refund the unspent RD&D funds by crediting PG&E's Core Fixed Cost Account and the Noncore Customer Class Charge Account.

We believe a similar approach is appropriate for SDG&E. Therefore, SDG&E should credit its unspent RD&D funds related to natural gas to its Gas Fixed Cost Account. SDG&E should also revise the amount to be transferred to reflect the on-going collection of interest (beyond January 1, 1999) on these unspent funds.

Comments

The draft Resolution of the Energy Division in this matter was mailed to parties in accordance with Public Utilities Code Section 311(g). No comments were filed on the Resolution.

Findings

1. During the three-year period of 1996 through 1998, SDG&E was authorized \$20,897,236 for Research, Development, and Demonstration (RD&D) programs but had spent only \$15,857,005 of this amount. Combined with interest payments, SDG&E has underspent its authorized RD&D budget by \$5,467,457.
2. In Advice Letter 1158-E/1142-G SDG&E requests authority to transfer \$5,467,457 of unspent RD&D funds to its Transition Revenue Account.
3. In D.99-06-058 the Commission addressed SDG&E's request regarding the disposition of unspent RD&D funds related to electric operations. Subject to certain conditions, the Commission approved SDG&E's alternative recommendation to transfer unspent RD&D funds to SDG&E's Transition Cost Balancing Account (TCBA).

4. D.99-06-058 did not address the disposition of SDG&E's unspent RD&D funds related to natural gas operations.
5. SDG&E has \$1,274,172 of unspent RD&D funds associated with its natural gas operations.
6. Consistent with previous Commission decisions (D.88-09-063, D.97-10-057, and Resolutions E-3622 and E-3628) these funds should be returned to ratepayers.
7. D.88-09-063 established a one-way balancing account for RD&D expenditures for SDG&E in order that unspent funds could be returned to the ratepayers.
8. D.97-10-057 reaffirmed that unspent RD&D funds should either be returned to the ratepayer or are spent on that program or function, consistent with relevant Commission orders.
9. Resolutions E-3622 and E-3628 concluded that PG&E's unspent RD&D funds should be returned to ratepayers.
10. Prior to the start of electric restructuring, the refund of unspent RD&D funds was accomplished by crediting the Electric Revenue Adjustment Mechanism (ERAM) account. With the elimination of the ERAM account, it is necessary to devise a different mechanism to refund unspent RD&D funds to ratepayers.
11. Unspent RD&D funds collected from SDG&E's natural gas customers should not be credited toward reducing the bills of SDG&E's electric customers.
12. SDG&E should proportionately credit the \$1,274,172 of unspent RD&D funds to reduce costs in its Gas Fixed Cost Account.
13. SDG&E should revise the amount to be transferred to reflect the on-going collection of interest on its unspent funds.
14. SDG&E's request in this Advice Letter to transfer unspent RD&D funds associated with its electric operations should be denied as moot. The Commission has addressed this issue in D.99-06-058.

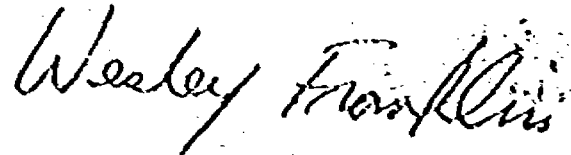
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Therefore it is ordered that:

1. The request of San Diego Gas and Electric Company (SDG&E) in this Advice Letter to transfer to its Transition Revenue Account unspent Research Development and Demonstration (RD&D) funds associated with its electric operations is denied as moot.
2. SDG&E shall refund its unspent RD&D funds associated with its natural gas operations (approximately \$1,274,172 plus continuing interest) to ratepayers by crediting these funds to its Gas Fixed Cost Account.
3. Unspent RD&D funds should continue to accrue interest beyond January 1, 1999 until the funds (with appropriate interest) are credited to the Gas Fixed Cost Account.

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 October 7, 1999; the following Commissioners voting favorably thereon:



WESLEY M. FRANKLIN
Executive Director

RICHARD A. BILAS
President
HENRY M. DUQUE
JOSIAH L. NEEPER
JOEL Z. HYATT
CARL W. WOOD
Commissioners