

PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

COMMISSION ADVISORY AND
COMPLIANCE DIVISION
Energy Branch

RESOLUTION E-3324
Date August 4, 1993

R E S O L U T I O N

RESOLUTION E-3324. SAN DIEGO GAS AND ELECTRIC COMPANY REQUESTS TO REVISE ITS ELECTRICAL REVENUE ADJUSTMENT MECHANISM AUTHORIZED BASE RATE REVENUE TO REFLECT AN INCREASE RELATED TO ITS SHARE OF SAN ONOFRE NUCLEAR GENERATING STATION POST-RETIREMENT BENEFITS OTHER THAN PENSIONS COSTS.

BY ADVICE LETTER 875-E, FILED ON MARCH 30, 1993.

SUMMARY

1. San Diego Gas and Electric Company (SDG&E) transmits for filing changes in tariffs applicable to its Electric Department.
2. The purpose of the filing is to revise SDG&E's Electric Revenue Adjustment Mechanism (ERAM) authorized base rate revenue to reflect an increase in its share of San Onofre Nuclear Generating Station (SONGS) post-retirement benefits other than pensions (PBOPs) costs.
3. SDG&E requests that the change in its ERAM authorized base rate revenue become effective as of March 30, 1993.
4. This Resolution grants the request effective August 4, 1993.

BACKGROUND

1. SDG&E has a 20% ownership in the three SONGS units which are located in San Diego County.
2. Southern California Edison Company (Edison) is the majority owner and operator of the three nuclear plants.
3. Under an agreement, SDG&E pays Edison for the former's 20% share of SONGS capital expenditures and operation and maintenance (O&M) expenses, including certain Edison corporate overheads which include PBOPs contributions.
4. The requested increase of \$3,709,183 includes SDG&E's share of Edison's 1991 and 1992 PBOPs contributions with respect to

SONGS O&M [\$3,704,389] and its associated Franchise Fees and Uncollectibles (FF&U) expense [\$4,794]. The latter amount includes adjustments for depreciation, income taxes, return, and associated FF&U.

NOTICE

1. SDG&E made public notification of AL 875-E by mailing copies of the advice letter to other utilities, government agencies, and all parties that requested such information. Notice of the advice letter was published in the Commission calendar.

PROTESTS

1. The Commission's Division of Ratepayer Advocates (DRA), by a letter dated April 19, 1993, protested AL 875-E. SDG&E responded to the protest on April 26, 1993. The nature of the protest and its discussion follow.

DISCUSSION

1. The Commission issued Decision 91-07-006 in July 1991, which authorized respondent energy utilities to recover in rates tax-deductible contributions thereafter paid to a pre-funded PBOPs plan if they met certain criteria.

2. The pre-funding authorization of PBOPs trust funds by the Commission in July of 1991 was in response to the Financial Accounting Standards Board's Statement of Financial Accounting Standards No. 106 (SFAS-106). The Commission adopted SFAS-106, with certain modifications, for utility accounting beginning January 1, 1993.

3. After the Commission issued D.91-07-006, Edison requested approval to pre-fund its PBOPs expenses through AL 913-E, 917-E-A, and 969-E which were subsequently granted. Thereafter, during 1991 and 1992, Edison made the authorized PBOPs contributions. Edison is now billing SDG&E for its proportionate share of these 1991 and 1992 expenses.

4. SDG&E's request is to increase its ERAM base rate revenues by \$3,709,183 for its share of these PBOPs expenses. SDG&E proposes that the consequent changes in electric rates be incorporated into a subsequent rate proceeding, such as SDG&E's 1994 Attrition filing in October, 1993 or its 1994 ECAC application to be filed in September 1993.

5. DRA's protest recommends that the Commission reject AL 875-E or postpone its disposition until receiving sufficient information to remove all retroactive costs from SDG&E's

proposal. DRA's protest makes the following two points:

(a) **Retroactive Ratemaking:** since all of the SDG&E expenses to be recovered were incurred by Edison prior to 1993, the request is to obtain expense recovery after the fact, which is prohibited by law. According to DRA, SDG&E should have pursued the matter in its test year 1993 general rate case or should have acted as intervenor when Edison filed for rate recovery of its 1991 and 1992 PBOPs costs. Most importantly, according to DRA, the proper proceeding should have been Edison's A.91-08-066 in which SDG&E was authorized to intervene and this very issue was identified for the purposes of submitting testimony.

(b) **Improper Venue:** Advice letter filings are not the proper venue to dispose of new issues, such as the present allocations from joint ventures. This matter involves investigation of complicated and highly technical issues such as actuarial calculations, inter-service territory equity, authorization of the billing agreement between Edison and SDG&E, and compliance with the ordering paragraphs of D.92-12-015 [PBOPs Phase II]. The advice letter process may not offer the necessary opportunities to conduct adequate discovery and litigate complicated issues. DRA needs time to issue data requests, analyze their responses, and requires the benefit of hearings to litigate differences and resolve issues among the parties.

6. SDG&E's primary response to 5(a) above is that it is not requesting recovery of any PBOPs amounts billed by Edison in 1992. It seeks recovery of only 1993 billings which are estimated to total \$3.7 million. Although the charges are for past costs incurred by Edison, there is a lag between the time Edison incurred the costs and the time it presented the bills to SDG&E. SDG&E was not obliged to pay PBOPs costs until Edison's bills became due.

7. In Decision 92-09-055, [In the Matter of the Application of SoCalGas and SDG&E for authority to revise their rates effective October 1, 1991, in their BCAP Proceeding], the Commission quotes from its previous D.92-03-094:

It is a well established tenet of the Commission that ratemaking is done on a prospective basis. The Commission's practice is not to authorize increased utility rates to account for previously incurred expenses, unless, before the utility incurs those expenses, the Commission has authorized the utility to book those expenses into a memorandum or balancing account for possible future recovery in rates. This practice is consistent with the rule against retroactive ratemaking. (Emphasis in original)

8. The thrust of SDG&E's response is that it does not incur any PBOPs expense for SONGS until the bill it receives from Edison comes due. The Commission should reject this argument. Under the accrual method of accounting, revenues and expenses are

recognized as they are earned and incurred (and not as money is received or paid), and recorded in the financial statements of the periods to which they relate. Some analogies may be helpful in understanding this point. A utility generally incurs a tax expense when it earns income or receives revenues that are taxable. It does not incur the tax expense at the later date when it files its tax return or pays estimated taxes. For another example, a utility incurs an expense for power purchased from a QF (qualifying facility) when it receives the power, not at any later date when it is billed for the power or pays the bill. Similarly, here, SDG&E incurred these SONGS-related PBOPs expenses long before it received a bill from Edison. The Commission does not have before it in this matter sufficient information to determine the precise date when SDG&E incurred these expenses for Edison's 1991 and 1992 PBOPs contributions. However, it is clear that that date was no later than the end of 1992. By that date, the employment to which these contributions relate was complete and Edison had already made all of these contributions to its tax-deductible PBOPs plans. As of the end of 1992 SDG&E had an obligation to pay Edison its 20% share of these SONGS PBOPs expenses, even though payment may not have been due until a later date after SDG&E received Edison's bills. Moreover, beginning January 1, 1993, the Commission required Edison and SDG&E to account for the PBOPs expenses on an accrual basis.

9. SDG&E also cites a decision of the Illinois Commerce Commission holding that environmental clean-up costs are current costs of doing business (and rejecting the argument that these costs were incurred when the now-closed plants were still operating and creating the pollution that now needs to be cleaned-up). Re Central Illinois Light Co. (Ill. Comm. Com'n, 1991) 124 P.U.R.4th 498, 506. That is not the issue here. Moreover, SDG&E ignores a critical aspect of that decision. The expenses the utility was seeking to recover in that case were being "accumulated in a deferred account pursuant to [previous] written authorization from the Commission's Director of Accounting" (124 P.U.R.4th at 503). Here, SDG&E does not argue that it has previously been authorized to record these 1991 and 1992 SONGS-related PBOPs expenses in a memorandum account.

10. In sum, SDG&E here seeks recovery of previously incurred expenses. It has not argued, either in its AL 875-E or in its response to DRA's protest, that before it incurred those expenses the Commission had authorized it to book those expenses in a memorandum or balancing account for possible future recovery in rates or the Commission had otherwise authorized SDG&E to recover these expenses from its ratepayers. Nevertheless, although SDG&E does not make the argument, it does appear that before SDG&E incurred these SONGS-related PBOPs expenses, the Commission had authorized SDG&E to recover these expenses from its ratepayers. This authorization is contained in D.91-07-006, which authorized Commission-regulated energy utilities to recover in rates tax-deductible contributions thereafter paid to a pre-funded PBOPs plan if certain criteria are met. After the date of that decision, Edison made tax-deductible contributions to pre-funded PBOPs plans. Included in

those sums were SONGS-related contributions for which SDG&E is responsible for its 20% share. SDG&E now seeks recovery from its ratepayers of its share of those contributions. In light of the prior authorization to recover these sums from ratepayers contained in D.91-07-006, recovery from SDG&E's ratepayers should not now be denied on grounds of retroactive ratemaking.

11. Edison must still establish, in its next general rate case, compliance with certain criteria contained in D.91-07-006. If SDG&E is authorized to recover in rates its share of Edison's SONGS-related pre-funded PBOPs contributions for 1991 and 1992, those rates should be subject to refund to the same extent as Edison's.

12. SDG&E's response to 5(b) above is that the Commission has addressed PBOPs pre-funding in one docket [I.90-07-037/ and PBOPs Phase 1: D.91-07-006] applicable to all California utilities, and has resolved SDG&E's portion of SONGS costs in Edison's general rate case dockets, because the Commission has recognized that unnecessary relitigation of issues is a waste of effort and imposes expense on all parties concerned.

13. SDG&E, in its response to DRA's protest, further contends that because the PBOPs and SONGS issues have already been fully resolved by the Commission, the advice letter process provides an efficient means to implement the Commission's earlier decisions. SDG&E admits that a general rate case order or an attrition filing could have been employed but because of the timing difference between Edison and SDG&E's filings, those processes are not available.

14. The advice letter process is sufficient to deal with the issues raised here. It is not desirable to relitigate previously decided issues.

FINDINGS

1. Edison is the majority owner and operator of the SONGS nuclear plants. SDG&E, under an agreement with Edison, pays Edison for SDG&E's 20% share of plant expenses.
2. Edison and SDG&E are authorized to recover in rates contributions paid to a pre-funded PBOPs plan in accordance with D.91-07-006.
3. The Commission has granted Edison's prior requests to pre-fund its PBOPs trusts and Edison, after incurring the expenses, is now billing SDG&E its proportionate share of the expenses.
4. SDG&E's share of SONGS-related PBOPs expenses for 1991 and 1992 will not be incurred when Edison, in the future, bills SDG&E for these expenses. SDG&E incurred these expenses no later than the end of 1992.
5. Before SDG&E incurred these SONGS-related PBOPs expenses, D.91-07-006 had authorized it to recover pre-funded PBOPs

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contributions from its ratepayers. Therefore, retroactive ratemaking concerns do not bar recovery here.

6. The advice letter process is sufficient to deal with the issues raised here.

7. AL 875-E seeks eventual recovery from SDG&E's ratepayers of SDG&E's share of SONGS-related PBOPs contributions that Edison made during 1991 and 1992, in the amount of \$3,709,183. SDG&E requests to add this amount to its ERAM base revenues, in effect reducing the amount collected in the balancing account by that same sum. The resulting increase in rates, however, would be delayed until 1994.

8. Any rates authorized to recover the above amount from SDG&E's ratepayers should be subject to refund to the same extent that Edison's rates for recovery of its 1991 and 1992 pre-funded PBOPs contributions are subject to refund.

9. SDG&E's request to add to its ERAM base revenues its share of SONGS-related pre-funded 1991 and 1992 PBOPs contributions should be granted.

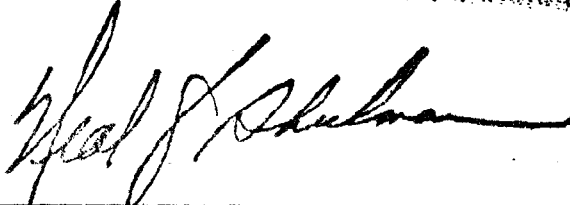
THEREFORE, IT IS ORDERED that:

1. San Diego Gas and Electric Company is authorized to revise its Electric Revenue Adjustment Mechanism Authorized Base Rate Revenue by \$3,709,183 to reflect its share of San Onofre Nuclear Generating Stations' Post-Retirement Benefits Other Than Pensions (PBOPs) costs pre-funded by Edison during 1991 and 1992.

2. Any rates authorized to recover the above amount from SDG&E's ratepayers shall be subject to refund to the same extent that Edison's rates for recovery of its 1991 and 1992 pre-funded PBOPs contributions are subject to refund.

This Resolution is effective today.

I hereby certify that this Resolution was adopted by the Public Utilities Commission at its regular meeting on August 4, 1993. The following Commissioners approved it:



Executive Director

DANIEL Wm. FESSLER
President
PATRICIA M. ECKERT
NORMAN D. SHUMWAY
P. GREGORY CONLON
Commissioners