

PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA
ENERGY DIVISION

RESOLUTION E-3606
AUGUST 5, 1999

RESOLUTION

RESOLUTION E--3606. SOUTHERN CALIFORNIA EDISON COMPANY SEEKS ESTABLISHMENT OF A FUEL OIL INVENTORY MEMORANDUM ACCOUNT (FOIMA) TO RECORD 1) FUEL OIL INVENTORY CARRYING COSTS AND 2) GAINS AND LOSSES ON THE SALE OF FUEL OIL INVENTORY. APPROVED AS MODIFIED.

BY ADVICE LETTER 1351-E FILED ON NOVEMBER 20, 1998.

Summary

1. This Resolution approves, with modifications, a request by the Southern California Edison Company (Edison) to create a Fuel Oil Inventory Memorandum Account (FOIMA).
2. The purpose of the FOIMA is 1) to record fuel oil inventory carrying costs; and 2) gains and losses on the sale of Edison's fuel oil inventory. Creation of the FOIMA is warranted in order to give the Independent System Operator (ISO) additional time to determine whether Edison's fuel oil inventories are needed for system reliability. Entries to the FOIMA shall only be made for fuel oil inventories that were held by Edison as of December 31, 1997.
3. Approval of Edison's request is based upon the Commission's adoption of Decision (D).99-06-078. This decision addressed many of the same issues raised by Edison in this filing and also raised by the Office of Ratepayer Advocates (ORA) and Enron in their protests to Edison's filing.
4. The FOIMA will become effective upon adoption of this Resolution and will terminate no later than January 31, 2000. There is no existing authority for Edison to book these costs to a memorandum account after December 31, 1998, and the Commission's policies concerning prospective ratemaking preclude making the FOIMA effective prior to the adoption of this Resolution.

Background

1. As part of the Commission's efforts to restructure the electric industry, Edison has divested itself of substantially all of its fossil-fueled generating facilities located in Southern

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California.¹ In D.97-11-074, the Commission directed Edison to begin the market valuation process for certain other "generation related assets." These assets included such items as generation-related materials and supplies (M&S); land associated with Edison's power plants that was not sold with the power plants; and Edison's fuel oil inventories and associated storage and delivery systems.

2. Advice Letter (AL) 1351-E, filed by Edison on November 20, 1998 requests the establishment of a Fuel Oil Inventory Memorandum Account (FOIMA) to track fuel oil costs incurred by Edison while the Commission completes the market valuation of Edison's fuel oil inventories.
3. In D.97-11-074, the Commission allowed Edison "to apply the 3-month commercial paper rate to the unamortized balance of the level of (Edison's) fuel oil inventories." This authority was allowed "for 1998 only."²
4. The Commission authorized this ratemaking treatment in order to allow the Independent System Operator (ISO) additional time to determine "whether those [fuel oil] inventories are needed for system reliability"³. Approximately 80% by book value,⁴ of Edison's fuel oil inventory is associated with low-sulfur fuel oil (LSFO). Due to a combination of environmental and economic reasons, Edison's fossil-fueled power plants have operated almost exclusively on natural gas over the past years. LSFO, and to a lesser extent diesel fuel, provide a back-up fuel source when natural gas is unavailable. D.97-11-074 "defer(red) consideration of the transition cost recovery of (Edison's) fuel oil inventory"⁵ in order to allow the ISO time to determine if a back-up fuel source was needed to ensure system reliability during times when natural gas would be unavailable (primarily due to either emergency or force majeure conditions).
5. Given the numerous issues associated with the start-up and operation of California's competitive electric industry, the ISO did not make any determinations regarding the need to maintain fuel oil inventories during 1998.
6. Therefore, on November 20, 1998 Edison filed AL 1351-E. The purpose of this Advice Letter was to establish a Fuel Oil Inventory Memorandum Account (FOIMA) that would have been effective as January 1, 1999. The purpose of the FOIMA would be 1) to record

¹ Edison has retained the generating facility used to serve Santa Catalina Island.

² D.97-11-074, Finding of Fact #29, p. 190

³ D.97-11-074, Finding of Fact #28, p. 190

⁴ D.99-06-078. There is also some combined-cycle turbine fuel stored at the Long Beach and Cool Water Generating Stations that has been retained by Edison and is subject to the ISO's reliability determination. The remainder of Edison's fuel oil inventory was either sold with the power plants as part of Edison's divestiture or is used by Edison's Santa Catalina power plant which is not undergoing divestiture or transition cost treatment (See D.99-06-078, p. 18-19). Edison estimated that \$68.8 million in fuel oil inventory was eligible for transition cost recovery as of January 1, 1998. (See D.97-11-074, p. 68).

⁵ D.97-11-074, p. 72

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fuel oil inventory carrying costs; and 2) gains and losses on the sale of Edison's fuel oil inventory.

7. The basic purpose of the FOIMA would be to continue beyond 1998 the ratemaking treatment that was accorded to Edison's fuel oil inventories by D.97-11-074. The FOIMA would remain in effect until the ISO had made its determination. As a memorandum account, however, Edison would only be allowed to track its incurred costs for this account. Actual recovery through rates of any expenses attributed to the operation of the FOIMA would have to be addressed by the Commission in a subsequent decision.⁶

Notice

1. Notice of AL 1351-E 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 and to all parties of record in the Commission's Competitive Transition Charge (CTC) application service list. (A.96-08-001/ A.96-08-006/ A.96-08-007/ A.96-08-070/ A.96-08-071.)

Protests

1. Advice Letter 1351-E was protested by ORA and Enron.⁷
2. Both ORA and Enron state that D.97-11-074 was clear in allowing Edison to receive interest on its fuel oil inventories only for 1998. Both ORA and Enron protest the establishment of the FOIMA and believe it would "eliminate any incentive (Edison has) to get this issue resolved" in a timely fashion and "substitutes a policy of unlimited time for recovery rather than the limited policy in D.97-11-074."⁸ As ORA notes, approval of the FOIMA could allow Edison to defer market valuation of its fuel oil inventories up until December 31, 2001, the end date for Edison to market value its facilities.
3. ORA further notes that the Commission "provided more than adequate time" for the ISO to address the fuel oil inventory issue and that the ISO's not addressing this issue during 1998 is proof that the ISO does not consider the fuel oil issue critical for system reliability.
4. Enron states that the Commission must not indefinitely wait for the ISO to finally act on the fuel oil inventory issue stating that; "Indeed the Commission itself expressed some uncertainty about the pending ISO determination, finding that the Commission was not

⁶ In this AL Edison is proposing that "any carrying costs recorded in the FOIMA could be reviewed by the Commission in the applicable Annual Transition Cost Proceeding (ATCP)." (Edison AL1351-E, p. 2)

⁷ ORA mailed its Protest on December 9, 1998. Enron's Protest was filed on December 11, 1998.

⁸ ORA Protest p. 2. See also Enron Protest, p. 2-4.

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convinced that this is an issue which FERC is considering [,] and that “[f]uel oil inventory issues may remain in the Commission’s jurisdiction.”⁹

5. Both ORA and Enron further argue that, should the Commission approve Edison’s request to establish a FOIMA, the Commission must provide a strong incentive for Edison to resolve the fuel oil inventory issue in a timely and expeditious fashion. ORA would accomplish this by not allowing Edison to earn any interest on unamortized balances in the FOIMA. Both ORA and Enron also suggest that any memorandum account approved by the Commission be done only on an “interim basis.” ORA would have the FOIMA terminate at the end of June, 1999, while Enron would allow the FOIMA to be established on an “interim” basis pending a decision by the Commission in Application (A.)98-05-014. This is the application in which Edison is supposed to establish the market valuation principles it will use for certain of its retained generation assets including Edison’s fuel oil inventories.
6. Finally, ORA raises an accounting issue over Edison’s FOIMA account. ORA argues that Edison should be allowed to book entries to the FOIMA account only on the “unamortized balance” instead of the entire “fuel oil inventory” as Edison has proposed.
7. Edison responded to ORA’s and Enron’s protests.¹⁰
8. Edison states that although D.97-11-074 authorized Edison to record interest on fuel oil inventories to the Transition Cost Balancing Account (TCBA) only during 1998, the decision does not prohibit Edison from seeking to record fuel oil inventory carrying costs in a different account. In its Advice Letter filing, Edison is asking to record these costs in the FOIMA. Rate recovery of these costs would be addressed in a future Annual Transition Cost Proceeding (ATCP).
9. Edison opposes any attempt to adopt the FOIMA on either an interim basis as proposed by Enron, or by a date certain as proposed by ORA. Edison states that the FOIMA will have a definitive end date of no later than December 31, 2001, the date by which Edison must market value all of its generating assets and potentially sooner once the ISO reaches a decision. Edison states that creation of the FOIMA “will not inappropriately prolong the valuation of SCE’s fuel oil inventory assets.”¹¹
10. Edison views ORA’s June 1999 end-date as “arbitrary [,]...since the ISO’s timetable for reviewing system reliability issues is entirely beyond the control of Edison”¹². Edison views Enron’s linkage of the FOIMA to A.98-05-014 as “inappropriate.” According to Edison,

⁹ Enron Protest, p. 3 citing from D.97-11-074, p. 72

¹⁰ Edison’s Response to ORA’s Protest was filed December 21, 1998 while Edison’s Response to Enron’s Protest was filed December 24, 1998.

¹¹ Edison’s Response to Enron’s Protest, p. 1

¹² Edison’s Response to ORA’s Protest p. 2.

A.98-05-014 is designed to address the methodology used to value fuel oil inventory, not the reasonable market value of these assets.

11. Edison opposes ORA's suggestion that the FOIMA be a non-interest bearing account. According to Edison, the Commission has for many years allowed balancing and memorandum accounts to include a component for interest expense. Additionally, Edison states that denying Edison the ability to earn interest on amounts recorded in the FOIMA would not affect Edison's incentives to resolve the fuel oil issue as expeditiously as possible.
12. Finally with regards to ORA's request that entries to the FOIMA account be limited to the "unamortized balance" of Edison's fuel oil inventory, Edison states that ORA fails to realize that fuel oil inventory costs are not "amortized." To amortize, according to Edison is to reflect "costs that are reduced on a systematic basis" such as the net book value of plant. Fuel oil inventory amounts are not "amortized" but change instead due to "purchases, sales, and adjustments" of the fuel oil in inventory.¹³

Discussion

Creation of the Memorandum Account

1. D.97-11-074 is clear in that it only allowed Edison to record interest on its fuel oil inventory "for 1998 only." D.97-11-074, by itself, does not provide Edison with any authority to request interest for its fuel oil inventory costs starting after January 1, 1999.
2. Subsequent to the filing of AL1351-E, the Commission issued D.99-06-078 in A.98-05-014. This proceeding was the forum for Edison to address the market valuation principles and other issues that will apply to certain of Edison's generating assets, including fuel oil inventories. A.98-05-014 is the follow-up proceeding to A.96-08-001 et al., the docket in which D.97-11-074 was issued.¹⁴
3. D.99-06-078 addressed the issue of Edison's fuel oil inventories by allowing that:

Market valuation of fuel-oil land, fuel-oil facilities, and fuel-oil inventories other than jet-turbine fuel, will be deferred until year-end 1999 to allow a determination by the Independent System Operator (ISO) that these assets are needed for system reliability. However, Edison is required to submit a proposal for market valuation of these assets, no later than January 31, 2000, regardless of whether the ISO has made its determination.¹⁵

¹³ Edison's Response to ORA's Protest p. 2

¹⁴ D.97-11-074, Ordering Paragraph #17, p. 209, required PG&E, Edison and SDG&E to file applications to establish the principles governing the market valuation of their retained generating assets.

¹⁵ D.99-06-078, p. 1-2. See also Ordering Paragraphs #3 and #4.

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4. Since much of D.99-06-078, and its recommended findings and conclusions, are relevant to the issues addressed by the parties to this Advice Letter, it is useful to review the decision. Additionally, administrative consistency suggests that, since both this Resolution and the Proposed Decision address many of the same issues, they should reach similar outcomes.
5. D.99-06-078 is based in part on Edison's statement that an "ISO determination (regarding back-up oil issues) is expected within a matter of months."¹⁶ Therefore, we do not need to address ORA's assertions regarding the ISO's expected time frame for resolution of the fuel oil issue. We also do not need to address ORA's and Enron's contentions that approval of a FOIMA would needlessly delay resolution of the fuel oil issue.
6. Since D.99-06-078 extends the timeframe for consideration of fuel oil issues beyond the timeframe originally contemplated by D.97-11-074, it is appropriate to consider granting Edison some form of memorandum account treatment to reflect this revised schedule.
7. In considering what type of memorandum account should be established we find merit in the suggestion of Enron that any memorandum account should be linked to the Commission's decision in A.98-05-014. Therefore we will make our approval of the memorandum account contingent upon the account's termination as of January 31, 2000, the date contained in D.99-06-078. This gives sufficient time for the ISO to make its expected decision and to make any necessary filings to FERC.¹⁷
8. We disagree with ORA's proposal to limit the operation of the memorandum account only until June 1999. We believe that not only is the choice of date somewhat arbitrary, but also that intervening events (i.e. the ISO's expected decision and the issuance of D.99-06-078) have rendered ORA's suggestion moot.
9. Similarly we reject Edison's request for an open-ended memorandum account that could run until December 31, 2001, the end of the market valuation period. D.97-11-074 expressed the Commission's clear desire that market valuation should occur "as early in the transition period as possible."¹⁸ D.99-06-078 itself relies on Edison's agreeing with TURN's statement that "if the ISO has not clarified the long-term status of the back-up oil facilities by late 1999, it would be appropriate to consider alternative approaches such as interim valuation."¹⁹ D.99-06-078 echoes Edison's and TURN's concerns by requiring Edison to file a market valuation by January 31, 2000 even if the ISO has not reached a decision by that time.

¹⁶ D.99-06-078, p. 10. The ISO has recently released a draft of its fuel oil reliability study which was discussed at the ISO Grid Operations Committee on May 14, 1999.

¹⁷ D.99-06-078, p. 21

¹⁸ D.97-11-074, p. 56

¹⁹ D.99-06-078, p. 10

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10. Therefore we adopt Enron's suggestion that the memorandum account should be "interim" in nature in that its duration is tied to the Commission's resolution of this issue in A.98-05-014. We reject Edison's assertion that the purpose of A.98-05-014 was solely to determine market valuation methodologies. As D.99-06-078 shows, A.98-05-014 also addresses the timeline and schedule under which market valuation should occur.
11. Therefore, consistent with D.99-06-078, the FOIMA should be effective only until January 31, 2000.

Effective Date of the Memorandum Account

12. D.97-11-074 is clear in that it allowed Edison to record interest on fuel oil inventory "for 1998 only." D.97-11-074, by itself, does not provide Edison with any authority to request interest for its fuel oil inventory costs starting January 1, 1999.
13. Edison's proposed memorandum account should be effective as of the date that the Commission adopts this Resolution. To do otherwise would be inconsistent with Commission policy. As the Commission said in the Southern California Water Co. Headquarters case, D.92-03-094 (March 31, 1992) 43 Cal. P.U.C. 2d 596, 600:

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.)

14. Since the issuance of D.92-03-094 the Commission has routinely and consistently applied this policy, most recently at its June 24, 1999 meeting where, again citing to the Southern California Water case, it prevented Pacific Gas & Electric (PG&E) from recovering \$2.47 million in bonus payments claimed for restructuring Qualifying Facilities (QF) contracts. The Commission found that these QF contracts were restructured before PG&E had any regulatory accounts in effect to track these bonus payments.²⁰
15. Also, at its June 24, 1999 meeting, the Commission approved an Advice Letter filed by PG&E to create a new memorandum account. Despite PG&E's request that the account become effective when the Advice Letter was filed²¹, the Commission, again

²⁰ See D.99-06-089, approved by the Commission on a 5-0 vote.

²¹ Subsequently modified by PG&E to be effective 40 days after filing

relying on the policy established in the Southern California Water case, made the account effective upon the date the Resolution was adopted. PG&E's Advice Letter was filed on July 23, 1998, almost four months before Edison filed its Advice Letter in this proceeding.²²

16. In addition to the recent decisions cited above, the Commission has followed the policy outlined in the Southern California Water case in numerous other decisions. A partial listing includes ;

- *Re Pacific Gas & Electric Company* [D.88-03-017] (1988) 27 Cal.P.U.C. 2d 491 (environmental compliance);
- *Re Pacific Gas & Electric* [D.88-09-020] (1988) 29 Cal.P.U.C. 2d 185, 197 (disallowing \$4.4 million of expenditures on hazardous waste management projects incurred before Commission authorized memorandum account);
- *Re Southern California Edison Company* (Compton) [D.88-09-064] (1988) 29 Cal.P.U.C. 2d 405;
- *Re Southern California Edison Company* (Visalia) [D.89-03-045] (1989) 31 Cal.P.U.C. 2d 369;
- *Re California Water Service Company* [D.89-05-069] (1989) 32 Cal.P.U.C. 2d 87; *Re California American Water Company* [D.89-06-053] (1989) 32 Cal.P.U.C. 2d 198 (water rationing);
- *Southern California Gas Co.* [D.91-04-028] (1991) 39 Cal.P.U.C. 2d 536;
- *Re Investigation into Possible Overassessment by the State Board of Equalization of Property Owned by Commission-regulated Utilities* [D.93-07-047] (1993) 50 Cal.P.U.C. 2d 386, 391.
- *Re Pacific Gas & Electric* (Martin Service Center) [D.93-03-043] (1993) 48 Cal.P.U.C. 2d 430, 434 (disallowing \$90,000 of environmental remediation costs incurred before date of Resolution approving Advice Letter and authorizing memorandum account);
- *Re Southern California Edison Company* (SONGS 2 & 3) [D.84-12-060] (1984) 16 Cal.P.U.C. 2d 495, 506 – 507.

17. The Commission has maintained its policy, even in cases where utilities have offered the Commission far more compelling reasons to consider an exemption. In 1991, the Commission prohibited the utilities from recovering the costs of restoring service and facilities after the Loma Prieta earthquake since these costs were incurred prior to authorization of a memorandum account.²³ If the Commission chose not to allow cost recovery under these circumstances, it is unclear why Edison should be entitled to recovery for no other reason than that they failed to file a protested Advice Letter

²² PG&E Advice Letter 1974-E, Resolution E-3574, p. 4

²³ The Commission resolved this problem on a prospective basis by creating the Catastrophic Event Memorandum Accounts so that there would be a preexisting account to record costs incurred after other natural disasters. See Resolution E-3238 (July 24, 1991) further discussed in Order Instituting Rulemaking 93-06-034 (June 23, 1993).

until it was too late for the Commission to take timely action.

18. Edison offers no compelling reason for the Commission to overturn its policy. Instead, Edison erroneously and incorrectly cites four Resolutions which Edison states the Commission approved with effective dates prior to date the Resolution was adopted. As discussed below, none of these cases supports Edison's contention, and one actually reiterates the Commission's policy regarding retroactive ratemaking.
19. In two of the four Resolutions that Edison cites, the Resolutions were compliance filings in response to a previously approved Commission decision that authorized either the tracking or recovery of incurred costs.²⁴ As previously mentioned, no such authority exists for Edison in this situation.
20. Edison also incorrectly cites AL-1332-E in support of its contention, despite the fact that nothing in that Resolution allowed Edison to book any expenses that were incurred by the utility prior to the creation of the memorandum account.
21. Edison offers only one example, where the Commission did adopt a Resolution with an effective date earlier than the date the Resolution was adopted. This Resolution, however was in response to a recently-enacted statutory provision of AB1890 which required an effective date of January 1, 1998. Nothing in the current situation, however, offers any statutory requirement for what Edison is asking.
22. The Commission has consistently applied its policy even in circumstances, such as Edison's fuel oil accounts, where there has been a "regulatory gap" due to the failure of the utility to timely file for memorandum account treatment. In both *Southern California Water Headquarters* [D. 92-03-094] and *Southern California Edison* (SONGS 2 & 3) [D.84-12-060], the utility had authority to accrue the carrying costs of its investment in plant while the plant was under construction (using AFUDC) and was later authorized to recover these carrying costs through memorandum or balancing account treatment. Nevertheless, in each case, the utility was denied recovery of these carrying costs from the date the plant was placed in service (and AFUDC ceased) until the date a new account was created into which to book those carrying costs. The Commission has also applied its policy even in cases where arguably the Commission took an excessive time to process the Advice Letter. For example, as described in D.93-04-043 the Commission denied recovery of costs in rates even though the Commission took more than 8 months to approve the Advice Letter. In Resolution E-3574, approved at the June 24, 1999 Commission meeting, the effective date of the Resolution was almost one year after the date requested by the utility.

²⁴ Edison cites AL1251-E, which was a compliance filing in response to D.97-09-117, and Advice Letter1275-E (Resolution E-3538) which was a compliance filing in response to D.97-11-074.

23. Although, in some of the above cases it may appear that the utility has not been fairly treated, it must also be recognized that utilities have also benefited from the application of the Commission's policies regarding retroactive ratemaking. Although in some cases, the application of this policy may preclude recovery by the utility of certain costs, in other cases it protects the utility from the Commission revisiting already incurred expenses. In D.97-11-074, for example, the Commission determined that as of January 1, 1998 the utilities' uneconomic assets should have received the lower rate of return applicable to stranded costs (approximately 7%) rather than the utilities' then currently authorized rate of return of 11.6%. Due to retroactive ratemaking concerns, however, the Commission determined that it was precluded from doing so prior to the establishment of a memorandum account to track these costs. Therefore, the reduced rate of return was only applicable starting as of July, 1998 when the Commission established a memorandum account to track these costs.²⁵ In this case, the utilities significantly benefited from the application of the Commission's policy.²⁶
24. Edison is asking us to make the FOIMA effective as of January of this year. To do so would be to allow Edison to recover carrying costs on its fuel oil inventory for a period during which there was no memorandum account into which it was authorized to book that expense. Therefore, doing so would be inconsistent with our repeatedly stated policy. We see no reason to depart from that policy here.

Accounting Issues

25. The memorandum account should earn interest at the commercial paper rate as proposed by Edison. This is the common practice for almost all of the memorandum and balancing accounts approved by the Commission. While the Commission in the past has adopted accounts that did not allow for interest to accrue, these have usually been set up as a punishment for utility actions or inactions. As Edison notes, the delay in resolution of the fuel oil issue is largely beyond Edison's control until the ISO makes its determination.
26. We do not see a need to adopt ORA's recommendation that interest be allowed only on the "unamortized" portion of Edison's fuel oil inventory. Although the word "unamortized" does not appear in Edison's proposed tariff language, the operation of the FOIMA, as proposed by Edison, achieves substantially the same result that ORA is seeking.
27. ORA and Edison appear to have different semantic interpretations of "amortize." Edison relies on the more traditional definition of "amortize" as reflecting "costs [that] are reduced on a systematic basis" such as the straight-line depreciation of the book value of a power plant. ORA, by contrast, appears to rely on the broader view contained in D.97-11-074 that to "amortize" means the reduction of costs that will occur over the transition period for

²⁵ See D.97-11-074, p. 175

²⁶ Although the exact figures are not available, assuming that Edison has approximately \$2 billion in uneconomic assets, the application of the Commission's policy saved Edison approximately \$20 million. In the current Resolution, Edison's potentially faces being unable to recover approximately \$1 million.

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electric restructuring. This amortization may not be on a systematic basis for all assets (due to such factors as the timing of market valuation, the sale of assets, and the availability of surplus revenues [i.e. headroom]) but should occur as expeditiously as possible.²⁷ D.97-11-074, for example, clearly states that Edison was entitled to carrying costs only on the "unamortized balance" of its fuel oil inventories.

28. As structured, Edison's FOIMA is consistent with the broader definition of amortize utilized in D.97-11-074 and it is not necessary to add the words "unamortized" to Edison's tariff language as ORA proposes.
29. Edison's tariff language does need to be modified, however, to reflect that fuel oil inventories purchased after January 1, 1998 are ineligible for transition cost recovery through the FOIMA.²⁸ These costs are more appropriately classified as "going forward" costs as defined by D.97-11-074.²⁹

Comments

1. The draft Resolution of the Energy Division in this matter was mailed to parties in accordance with Public Utilities Code Section 311(g). Comments were filed by Edison on June 14, 1999. In its comments, Edison reargues its position that the FOIMA should remain in effect until December 31, 2001. Edison also requests that the FOIMA account should be effective as of January 1, 1999 instead of the date the Commission approves this Resolution. We have addressed that request above.

Findings

1. The purpose of Edison's Fuel Oil Inventory Memorandum Account is; 1) to record fuel oil inventory carrying costs; and 2) gains and losses on the sale of Edison's fuel oil inventory.
2. D.97-11-074 is clear in that it only allowed Edison to record interest on its fuel oil inventory "for 1998 only." D.97-11-074 does not provide Edison with any authority to request interest for its fuel oil inventory costs starting January 1, 1999.
3. Given the numerous issues associated with the start-up and operation of California's competitive electric industry, the ISO did not make any determinations regarding the need to maintain fuel oil inventories during 1998.

²⁷ For example, D.97-06-060 (CTC Phase I Decision) and D.97-11-074 allow the utilities to amortize the uneconomic portion of their power plants on a straight-line basis over a 48-month period subject to accelerated amortization should the power plant be sold or if there are surplus revenues from headroom available. (See "General Principles... [for the] Transition Cost Balancing Account" in Section JJ. of Edison's Preliminary Statement.

²⁸ Unless such costs are recoverable through the ISO/PX Implementation Delay Memorandum Account for the period between the scheduled and actual start-up of Direct Access (January 1, 1998 and April 1, 1998 respectively.)

²⁹ See D.97-11-074, p. 25-27 and Public Utilities Code Sec. 367.

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4. Creation of the FOIMA is warranted in order to give the Independent System Operator (ISO) additional time to determine whether Edison's fuel oil inventories are needed for system reliability.
5. Approval of Edison's request should be consistent with the Commission's findings in D.99-06-078. This decision addresses many of the same issues raised by Edison in this filing and also raised by ORA and Enron in their protests to Edison's filing.
6. The FOIMA should only become effective upon adoption of this Resolution consistent with the Commission's policies concerning prospective ratemaking.
7. Consistent with other memorandum and balancing accounts approved by the Commission in the past, the FOIMA should include a component for interest.
8. The FOIMA is a memorandum account to allow Edison to track its incurred costs for its fuel oil inventory. Actual recovery through rates of any expenses attributed to the operation of the FOIMA would have to be addressed by the Commission in a subsequent decision.
9. It is not necessary to add the words "unamortized" to Edison's tariff language as ORA proposes.
10. Fuel oil inventories purchased by Edison after January 1, 1998 are ineligible for inclusion into the FOIMA.

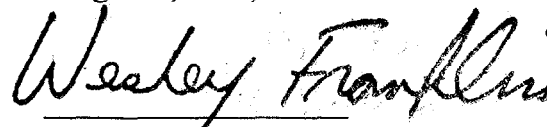
Therefore it is ordered that:

1. The request of Southern California Edison Company (Edison) to establish a Fuel Oil Inventory Memorandum Account (FOIMA) is approved as modified by this Resolution. If Edison accepts the modifications, it shall supplement its Advice Letter within 20 days of the effective date of this Resolution to make the following changes to its proposed tariffs:
 - a. Change Sections 48 (a.) and (b.) of Part N of Edison's Preliminary Statement to read:
"a. Carrying costs, and b. Gains and losses on the sale of fuel oil inventory that were held by SCE in inventory as of December 31, 1997."
 - b. Add the following at the end of Section 48: "This memorandum account shall expire no later than January 31, 2000."

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2. The FOIMA shall be effective as of the date that the Commission approves this Resolution and shall terminate on January 31, 2000.

I certify that this foregoing resolution was duly introduced, passed, and adopted at a conference of the Public Utilities Commission of the State of California held on August 5, 1999, the following Commissioners voting favorably thereon:



WESLEY M. FRANKLIN

Executive Director

RICHARD A. BILAS

President

HENRY M. DUQUE

JOEL Z. HYATT

CARL W. WOOD

Commissioners

I dissent.

/s/ Josiah L. Neeper