

PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

ENERGY DIVISION\*

RESOLUTION E-3633  
NOVEMBER 4, 1999

RESOLUTION

**RESOLUTION E--3633.** Southern California Edison Company seeks revisions to its *Divestiture of Fossil Generation (DFG) Memorandum Account* to include expenses associated with the divestiture and market valuation of its fossil-fueled and hydroelectric generation assets and to rename the account the "*Divestiture and Market Valuation of Fossil-Fueled and Hydroelectric Generation Account (DMVFHG)*." Denied. Edison already is authorized to record market valuation costs incurred after January 1, 1998 as a potential offset to Edison's CTC Revenue Account to the extent not inconsistent with Commission decisions. Edison is directed to revise its tariffs to include more detail.

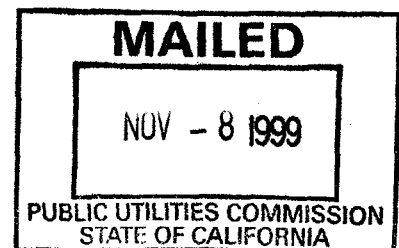
By Advice Letter 1262-E Filed on November 18, 1997.

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Summary

This Resolution denies a request by the Southern California Edison Company (Edison) to expand the scope of Edison's Divestiture of Fossil Generation Memorandum Account (DFG) Account. To a large extent, Edison's proposed tariff revisions would allow Edison to record costs it is already authorized to record as offsets to the "CTC Revenue Account" of the Transition Cost Balancing Account (TCBA). These costs, once they are found reasonable by the Commission at the time that Edison market values its generation assets, would be offset against any net gain from market valuation. While Edison is already authorized to record many of these costs as potential offsets to its CTC Revenue Account, the description of this account in Edison's tariffs should be clarified for the future.

Other portions of Edison's request to expand the type and scope of expenses that may be recorded as potential offsets to its CTC Revenue Account as well as its CTC Cost Account are in conflict with Commission decisions and should be denied.



## **Background**

Assembly Bill (AB)1890<sup>1</sup>, California's electric restructuring legislation, requires that the Commission must undertake a market valuation of all of Edison's generation related assets by no later than December 31, 2001.<sup>2</sup> This market valuation could take place either by divestiture, appraisal, or other forms of sale to be determined by the Commission.

In Advice Letter 1179-E, effective October 8, 1996, Edison created the Divestiture of Fossil Generation (DFG) memorandum account. The purpose of the DFG account was "to record all costs incurred by Edison associated with divestiture of [its] fossil fueled generation." At the time, Edison was in the process of divesting itself of substantially all of its fossil-fueled generation facilities located in Southern California<sup>3</sup>, the sale of which was approved by the Commission in Decision (D.)97-12-106.

As a memorandum account, the DFG account only allows Edison to track its incurred costs associated with divestiture. Actual recovery of any expenses booked to the DFG account would have to be approved the Commission in a subsequent decision.

Excluded from the DFG account are "any Edison labor expenses for activities which are already included in rates pursuant to...Edison's 1995 General Rate Case."<sup>4</sup> The primary purpose of the DFG account is to record "outside" expenses that Edison incurs from third parties such as fees for investment bankers, outside environmental consultants, and appraisers.

Under the DFG memorandum account, Edison was able to book the appropriate transaction costs associated with Edison's sale of its Southern California power plants for potential future recovery.

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<sup>1</sup> Stats. 1996, Ch. 854

<sup>2</sup> Public Utilities (PU) Code, Sec. 367(b)

<sup>3</sup> See Application (A.) 96-11-046. Edison has retained the generation facility used to serve Santa Catalina Island.

<sup>4</sup> Edison Advice Letter 1179-E effective as of October 8, 1996

In Advice Letter 1262-E, the subject of this Resolution, Edison seeks to rename the DFG Account as the “Divestiture/Market Valuation of Fossil and Hydro Generation (DMVFHG) Memorandum Account.”<sup>5</sup> The revised name reflects the broader scope and purpose of Edison’s proposed revisions to this account.

The newly named DMVFHG account would continue the already approved tracking of the costs incurred by Edison associated with divestiture of fossil fueled generation. The coverage of the account would be expanded to track and record in the DMVFHG account:

- The costs associated with the market valuation (which could include divestiture), of the remaining fossil-fueled generation plants owned by Edison. The primary fossil-fueled generation assets retained by Edison, after divesting its plants in Southern California, are its shares of the Mojave and Four Corners coal-fired power plants located in Nevada and Arizona respectively.
- The costs incurred by Edison associated with the divestiture and/or other market valuation of its hydroelectric generation.<sup>6</sup>
- Any “capital-related revenue requirement”, in addition to expensed items, associated with either divestiture or other market valuation.
- Edison’s own labor expenses associated with either divestiture or other market valuation of its fossil-fueled plants. Edison claims that D.97-08-056 (also known as the “Unbundling Decision”) limited the ability of Edison to recover through rates certain labor expenses associated with market valuation of these plants.

Edison is not seeking recovery of any of its labor expenses associated with the market valuation of its hydroelectric power plants, as it believed it would be allowed to recover these costs through its proposed Hydro Performance Based Ratemaking Mechanism. In D.97-12-102, the Commission adopted a ratemaking

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<sup>5</sup> As the name of the account and Edison’s description of it implies, Edison believes that “market valuation” and “divestiture” are two distinct activities. Unless specifically noted, this Resolution uses the broader definition of market valuation contained in D.97-11-074 in which divestiture, appraisal, or other means of sale are all considered acts of market valuation.

<sup>6</sup> Edison states it has not yet decided if it will divest or use other means to market value its hydroelectric plants.

mechanism for Edison to recover expenses associated with its hydroelectric operations.

Finally, in order to separately track expenses by generation type, Edison proposes to create two subaccounts within the DMVFG account, to be named the:

- Divestiture/Market Valuation of Fossil Generation Subaccount; and,
- Divestiture/Market Valuation of Hydro Generation Subaccount.

Subsequent to Edison's filing of its Advice Letter, the Commission has issued several decisions that have addressed the same issues that Edison raises in its Advice Letter.

D.97-11-074 and D.97-12-039 addressed the ratemaking treatment associated with the market valuation of generation assets owned by Edison, Pacific Gas & Electric (PG&E), and San Diego Gas & Electric (SDG&E). These utilities filed compliance tariffs in response to these decisions that were approved by the Commission in Resolution E-3538, effective January 1, 1998.

D.97-08-056 and D.97-11-073 have addressed the ratemaking treatment of Edison's labor expenses associated with its fossil-fueled generation.

### Notice

Notice of AL 1262-E was made by publication in the Commission's Daily Calendar. Edison states that a copy of the Advice Letter was distributed in accordance with Section III-G of General Order 96-A as well as to all parties of record in Edison's divestiture application (A.96-11-046).<sup>7</sup> On January 12, 1998

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<sup>7</sup> Although Edison provided notice according to General Order 96-A, Edison incorrectly states that it was not required to do so as it considered the Advice Letter as a compliance filing in response to the Commission's electric restructuring (D.95-12-063 as modified by D.96-01-009) and Roadmap decisions (D.96-03-022.) This is incorrect. None of these decisions granted Edison any authority to establish memorandum accounts to track divestiture and market valuation costs. Instead, these decisions established the Commission's policy goals regarding electric restructuring and then went on to identify the future proceedings in which the actual implementation, including ratemaking treatment, would occur. (See for example, D.97-02-021 slip opinion p. 72, see also D.99-06-089, slip opinion p. 9.)

Edison filed substitute Tariff Sheets to its Advice Letter, which were served only upon the Commission and the Office of Ratepayer Advocates (ORA).<sup>8</sup>

### Protests

Advice Letter 1262-E was protested by ORA.<sup>9</sup>

ORA's general concern is that;

...The relief Edison seeks appears in some cases to involve modifications of existing Commission decisions and in other cases to resolve issues of first impression. These types of changes and policies go beyond what should be filed as an advice letter, and should only be sought as part of a formal filing.<sup>10</sup>

ORA appears to support expanding the scope of the DFG account solely to include the direct costs associated with the divestiture of Edison's hydroelectric generation.<sup>11</sup>

With regards to the recovery of costs associated with market valuation, however, ORA has a number of concerns.

First, ORA states that Edison has provided "no justification for inclusion of all costs of market valuation." ORA believes the scope of Edison's request is far too broad and would allow Edison to seek recovery of "any costs of evaluating how to market value...not only the direct transaction costs [needed] to make market valuation occur."<sup>12</sup>

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<sup>8</sup> General Order 96-A requires that all tariff sheets, including substitute tariff sheets, must be served upon all parties receiving the original advice letter filing unless the utility has received a waiver of this requirement from the Energy Division (See General Order 96-A, Sec. III-J). On November 2, 1999 the Energy Division granted Edison a waiver from this notice provision.

<sup>9</sup> ORA mailed its Protest on December 3, 1997.

<sup>10</sup> ORA Protest p. 1.

<sup>11</sup> As ORA states in their protest; "If Edison were only requesting that hydro divestiture be covered [under the memorandum account], such a change would be appropriate for the expanded scope of sale." (ORA Protest, p. 1)

<sup>12</sup> ORA Protest, p. 1.

Second, ORA reiterates its concern that the issue of market valuation “raises policy and factual issues that should be addressed in a formal filing.” ORA notes that the Commission, in D.97-11-074 directed Edison to file “applications which set forth principles relating to market valuation of retained assets.” ORA believes that the issue of cost recovery for the costs of market valuation should be addressed in that proceeding, not through an Advice Letter.

Third, ORA takes issue with the procedural forum in which Edison would seek to recover any costs incurred in the memorandum account. Edison proposes to recover these costs “in the first Revenue Allocation <sup>13</sup>(sic) proceeding available...or other proceeding deemed appropriate by the Commission.” ORA believes instead that the issue of cost recovery for market valuation “should be determined on a coordinated basis” and should occur in the Commission’s proceedings to address transition costs.

ORA also objects to broadening the scope of items eligible to be booked into the memorandum account to include “capital related revenue requirement.” ORA does not foresee what costs, if any, associated with the market valuation of generation facilities would need to be capitalized.

Finally, ORA objects to Edison’s inclusion of direct labor costs incurred by Edison associated with market valuation or divestiture. ORA believes that such an inclusion represents a modification of D.97-08-056 and should be addressed through a formal filing rather than through an Advice Letter.

Edison responded to ORA’s protest.<sup>14</sup> The substance of Edison’s response is addressed in the Discussion section of this Resolution.

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<sup>13</sup> This should be “Revenue Adjustment Proceeding”

<sup>14</sup> Edison responded on December 18, 1997.

**Discussion**

*Edison's Existing Tariff Authority Under D.97-11-074 and D.97-12-039 Already Provides Edison an Opportunity to Record Costs associated with Market Valuation as Potential Offsets to its CTC Revenue Account*

Edison's request to expand the scope of Edison's Divestiture of Fossil Generation Memorandum Account (DFG) Account should be denied.

To a large extent, Edison's proposed tariff revisions would allow Edison to record costs it is already authorized to record as offsets to the "CTC Revenue Account" of the Transition Cost Balancing Account (TCBA). These costs, once they are found reasonable by the Commission at the time that Edison market values its generation assets, would be offset against any net gain that Edison receives from market valuation.

Subsequent to Edison's filing of Advice Letter 1262-E, the Commission issued D.97-11-074 and D.97-12-039 which addressed the ratemaking treatment associated with the market valuation of generation assets<sup>15</sup> and addressed many of the same issues raised by Edison in its Advice Letter.

In discussing how gains and losses should be flowed back to ratepayers, PG&E proposed in the proceeding that led up to the issuance of D.97-11-074 that:

[A]ll gains and losses realized through sale, spinoff, or appraisal of generation assets, including land, should flow back to ratepayers by way of the transition cost balancing account.<sup>16</sup>

In that same proceeding, Edison proposed, with regard to the calculation of the gain or loss, that:

At the time of divestiture, Edison [would]...deduct the *transactions costs* of the sale from the sale proceeds. Edison would then compare this net sales revenue amount to the unamortized sunk cost of the asset at the time of sale to determine the net gain or loss on the sale... Edison believes this approach

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<sup>15</sup> Edison filed its Advice Letter on November 18, 1997; D.97-11-074 was mailed on November 21, 1997.

<sup>16</sup> D.97-11-074, p. 34

is consistent with the requirements of Section 367(b), which states in relevant part that uneconomic costs shall “be based on a calculation mechanism that nets the negative value of all above market utility-owned generation assets against the positive value of all below market utility-owned generation assets.” (Emphasis added).<sup>17</sup>

D.97-11-074 conceptually agreed “that the gain or loss resulting from sale of assets, including land, should now flow through the transition cost balancing account...”<sup>18</sup> D.97-12-039 then addressed various issues relating to the tariffs required to implement D.97-11-074. This later decision refers more generally to market valuation rather than just sale.<sup>19</sup> D.97-11-074 and D.97-12-039 thus implicitly agreed that utilities should be able to offset any reasonably incurred transaction costs against the net gain from market valuation of generation assets.

In implementing this provision into its tariffs, PG&E included the following language in the “CTC Revenue Section” of its Preliminary Statement:

The CTC Revenue Section records all CTC monthly revenues...[including]

.....

A credit entry, if applicable, at the time of final market valuation, equal to the CPUC portion of the following three components: (1) market value of each plant, (2) less the net book value of the plant, (3) *less transaction costs and other costs that are authorized for recovery through the market valuation process*, pursuant to Decision 97-11-074, FOF 21 and Decision 97-12-039, FOF 3. (Emphasis added)<sup>20</sup>

SDG&E also included substantially similar language in its Advice Letter filing in compliance with D.97-11-074.<sup>21</sup>

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<sup>17</sup> D.97-11-074, p. 35

<sup>18</sup> D.97-11-074, p. 35, see also Finding of Fact #20, p. 189.

<sup>19</sup> D.97-12-039, see e.g. Finding of Fact #3, slip. op., p. 21

<sup>20</sup> PG&E Preliminary Statement, Section AV., 6.A. and 6.A.10, approved by the Commission in Resolution E-3538.

<sup>21</sup> SDG&E Advice Letter 1066-E.



Edison, in filing its implementation tariffs in response to D.97-11-074 and D.97-12-039 did not include the same detailed language that both PG&E and SDG&E did. Instead, Edison's entire CTC Revenue Section only contains a broad description of the operation of its CTC Revenue account, stating:

The Revenue Account within the TCBA shall record all CTC revenues, in addition to other amounts authorized by the Commission.<sup>22</sup>

While Edison's language is much less detailed than that used by PG&E, we do not view it as preventing the booking of transaction costs before calculating the net revenues from market valuation to be credited to the CTC Revenue account. Rather we view this language as implementing the concepts outlined in D.97-11-074 and D.97-12-039. Indeed, we note that PG&E's tariff includes as part of CTC revenues the offsetting transaction costs. We see no reason to interpret Edison's broader, more general, language in a way inconsistent with PG&E's tariff. Edison's tariff language is sufficient for Edison to record as offsets to CTC revenues the market valuation costs incurred after January 1, 1998, the effective date of D.97-11-074's implementing tariffs<sup>23</sup>, to the extent these costs are not inconsistent with other Commission decisions.

*Edison Should Update its Tariffs*

Edison's broad and general tariff language could create future uncertainties over the proper recording and ratemaking treatment of costs and revenues. Therefore, Edison should be required to file an Advice Letter to revise the tariffs in its Transition Cost Balancing Account that relate to transaction costs to conform them to both the more detailed tariff language of PG&E as well as the guidance provided in this Resolution.

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<sup>22</sup> Edison Preliminary Statement, Sec. JJ. By contrast, PG&E's CTC Revenue Section contains 18 separate sub-sections.

<sup>23</sup> See Resolution E-3538

Edison's request to expand the scope of expenses that may be considered as transaction costs is in conflict with Commission decisions and should be denied.

In its Advice Letter filing Edison sought two modifications to the type of costs that could be included as transaction costs associated with divestiture and/or market valuation. These modifications would allow Edison to include 1) any "capital-related revenue requirement", in addition to expensed items and 2) Edison's own labor expenses associated with either divestiture or market valuation of its fossil-fueled power plants, more specifically certain "going forward" costs addressed in D.97-08-056.

Both of these requests should be denied. Once again, various Commission decisions, issued subsequent to the filing of Edison's Advice Letter, have addressed these same issues. Edison should not record expenses of these two types as transaction costs under either its existing CTC revenue account or under the revised tariffs that we are requiring Edison to file.

Edison's first request is that it be allowed to book "Capital Related Revenue Requirement" as an appropriate transaction cost, a position opposed by ORA. In their response to ORA's protest, Edison states that it is unclear what types of expenses will be required for market valuation and that it should not be limited as to what items it can book as transaction costs.

Edison's request is contrary not only to D.97-11-074 but also Edison's own position in that proceeding. In D.97-11-074, it was Edison that proposed that upon market valuation the utility should "deduct the transactions costs of the sale from the sale proceeds."<sup>24</sup> D.97-11-074 also specifically rejected a request by Edison to amortize any gain over the remaining months of the transition period. Instead, D.97-11-074 directed Edison that the "Gain should simply be credited to the transaction cost balancing account and the appropriate subaccount closed out."<sup>25</sup> Additionally, the types of costs associated with market valuation (such as fees for appraisers and investment bankers) are expenses that are not likely to have a capital component. Consistent with Edison's own testimony and the approach taken in D.97-11-074, any expenses associated with market valuation should be

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<sup>24</sup> See D.97-11-074, p. 35

<sup>25</sup> D.97-11-074, p. 35

credited against the value of the asset at the time that the valuation occurs, not capitalized over a period of time.

Allowing Edison to seek recovery of capital costs associated with market valuation could violate the Commission's recent decisions regarding the recovery of "capital additions" associated with retained utility power plants. Public Utilities Code 367 requires that capital additions incurred after December 20, 1995 for non-nuclear generation plants must meet certain specified criteria in order to be recovered in rates. The Commission has addressed the implementation of this code section for Edison in D.97-09-048, D.98-03-054, and D.99-03-055.

Edison's second request that it be allowed to book as transaction costs portions of its own labor costs, in order to deal with Edison's perceived problems under D.97-08-056, should be denied. The only types of expense that Edison suggests it needs to recover through the broader language it proposes for its new tariffs are expenses already precluded from recovery by Commission decisions.

In D.97-08-056, the Commission determined that all "going forward" costs of hydroelectric and fossil-fueled generation, including a portion of Administrative and General (A&G) expenses, should be recovered solely from generation revenues and not from distribution revenues.<sup>26</sup> Edison argues that due to D.97-08-056 it may need to seek recovery of some of these "going forward" costs as transaction costs.

For Edison's retained fossil-fueled power plants, D.97-08-056 requires that such costs be recovered solely from generation revenues, a position the Commission reconfirmed in D.97-11-073, a decision issued subsequent to Edison's Advice Letter filing. Allowing recovery of these costs as an offset to CTC revenues would have direct access customers (who do not take Edison generation services but do pay CTC) contributing to the recovery of Edison's "going forward" generation costs, contrary to our clear intention.

Additionally, as ORA notes, Edison's request would require a modification of a Commission decision, something that is more appropriately sought through a

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<sup>26</sup> "Specifically, we will not permit allocations of generation costs to distribution customers. To do so would compromise market efficiency by producing artificially low utility generation rates...and provide competitive advantages, which would stifle competition to the utilities." (D.97-08-056, slip opinion p. 8)

petition for modification rather than through an Advice Letter filing.<sup>27</sup> For all of the above reasons, this portion of Edison's request should be denied.

*Any Transaction Costs Booked as Offsets to CTC Revenues Must be Found Reasonable by the Commission*

Finally, we remind Edison that any transaction costs that it seeks to recover at the time of market valuation must be found reasonable by the Commission and approved for recovery.

As D.97-11-074 states;

As we move forward with these auctions, we must carefully review the transactions to ensure that the *maximum amount reasonable* under the circumstances of the sale is obtained to offset transition cost recovery, as is our duty under AB1890. (Emphasis added)<sup>28</sup>

ORA raises a valid concern in objecting to the broad scope of Edison's request regarding what might be included as transaction costs associated with market valuation. We must distinguish between Edison's role as a potential purchaser of market-valued assets and Edison's role as an impartial seller<sup>29</sup> of these very same assets. Ratepayers should not be obligated to pay for any costs that Edison incurs in deciding whether its long-term corporate strategy is benefited by divesting or market valuing a particular plant. Similarly, costs that Edison incurs in evaluating whether to retain a plant, once market valued, also should not be recovered from ratepayers. Allowing Edison to recover such costs from ratepayers would also give Edison an unfair advantage relative to other parties who may be interested in acquiring generation facilities.

In its role as an impartial seller, however, Edison may be entitled to the reasonable costs of such items as appraisers, preparation of bidding packages, etc. if such expenses are consistent with the market valuation principles the Commission

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<sup>27</sup> Granting Edison's request would modify D.97-08-056 without providing adequate notice to all affected parties as required by Public Utilities Code Section 1708.

<sup>28</sup> D.97-11-074, p. 35

<sup>29</sup> The term an "impartial valuer" of assets might be more correct since valuation may not occur through a sale in all instances.

develops. Any entries to Edison's proposed transaction costs should be limited solely to this type of expense. Edison should include appropriate language in its revised tariffs.

### **Comments**

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 October 19, 1999. Edison agrees with the draft resolution that changes need to be made to the CTC Revenue Section of Edison's tariff language but that these changes should address only the transaction costs associated with Edison's non-fossil generating assets. Edison states that existing tariff language in its "Fossil Sunk Cost Subaccount", approved by the Commission in D.97-11-074 and Resolution E-3538, is sufficient to record transaction costs associated with Edison's fossil generating assets. This statement is partially correct. The language contained in Edison's Fossil Sunk Cost Subaccount applies only to "each fossil generating facility that has been subject to sale."<sup>30</sup> This portion of Edison's tariffs alone is insufficient to apply to the market valuation (through means other than sale) of Edison's fossil generating assets. We do agree with Edison that in the interests of making its tariffs as accessible and easy to use as possible, Edison should revise both the CTC Revenue and CTC Cost Account sections of its Transition Cost Balancing Account as needed to conform to this Resolution.

Secondly, Edison disagrees with the draft resolution's statement that Edison's tariffs "only contain a broad description of the CTC Revenue Account when compared to that of PG&E and SDG&E" and that this statement should be removed. We disagree. Had Edison's tariffs been of the same detail as PG&E's tariffs, there would not have been a need for this Resolution to clarify the ability of Edison to recover its transaction costs associated with market valuation.

### **Findings**

1. Edison's request to expand the scope of Edison's Divestiture of Fossil Generation Memorandum Account (DFG) Account should be denied.

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<sup>30</sup> Edison Preliminary Statement, Sec.II, 6 (g)

2. Subsequent to Edison's filing of Advice Letter 1262-E, the Commission issued D.97-11-074 and D.97-12-039 which addressed the ratemaking treatment associated with the market valuation of generation assets.
3. To a large extent, Edison's proposed tariff revisions would allow Edison to record costs it is already authorized to record as potential offsets to the "CTC Revenue Account" of the Transition Cost Balancing Account (TCBA).
4. Edison's existing tariff language, filed in compliance with D.97-11-074 and D.97-12-039, provides Edison with authority to track and record certain expenses (excluding expenses prohibited by this Resolution and other Commission decisions) associated with the market valuation of its generation assets. These costs, once they are found reasonable by the Commission at the time that Edison market values its generation assets, would be an offset against any net gain that Edison receives from market valuation.
5. Edison's tariffs regarding the market valuation of generation assets are overly broad and significantly less detailed than the compliance tariffs filed by PG&E.
6. Edison should file an Advice Letter to revise the tariffs in its Transition Cost Balancing Account that relate to transaction costs to conform them to both the more detailed tariff language of PG&E as well as the guidance provided in this Resolution.
7. Any expenses associated with market valuation should be credited against the value of the asset at the time that the valuation occurs, not capitalized over a period of time. This is consistent with Edison's own proposal in D.97-11-074.
8. The types of costs associated with market valuation (such as fees for appraisers and investment bankers) are expenses that are not likely to have a capital component.
9. Public Utilities Code 367 requires that capital additions incurred after December 20, 1995 for non-nuclear generation plants must meet certain specified criteria in order to be recovered in rates. The Commission has addressed the implementation of this code section for Edison in D.97-09-048, D.98-03-054, and D.99-03-055.

10. Allowing Edison to seek recovery of capital costs associated with market valuation could violate the Commission's recent decisions regarding the recovery of "capital additions" associated with retained utility power plants.
11. Edison's request to book "Capital Related Revenue Requirement" as an appropriate transaction cost should be denied.
12. In D.97-08-056, the Commission determined that all "going forward" costs of hydroelectric and fossil-fueled generation, including a portion of Administrative and General (A&G) expenses, should be recovered solely from generation revenues and not from distribution revenues. The Commission reconfirmed this position in D.97-11-073, a decision issued subsequent to Edison's Advice Letter filing.
13. The only reason Edison gives for allowing expanded recovery of labor expenses as transaction costs is the fact that D.97-08-056 prohibited the recovery of certain "going forward" generation costs from distribution customers. Allowing recovery of these labor expenses as an offset to CTC revenues would have direct access customers (who do not take Edison generation services but do pay CTC) contributing to the recovery of Edison's "going forward" generation costs, contrary to our clear intention.
14. Edison's request to include its labor costs as transaction costs should be denied.
15. Edison's request to include its labor costs as transaction costs would have been more appropriately done through a petition to modify a Commission decision.
16. Any transaction costs that Edison seeks to recover at the time of market valuation must be found reasonable by the Commission.
17. In revising its tariffs Edison should clarify that only costs associated with Edison's role as an impartial seller or valuer of its generation assets should be included as transaction costs.

18. Edison's Fossil Sunk Cost Subaccount applies only to "each fossil generating facility that has been subject to sale" and does not apply to the market valuation (through means other than sale) of Edison's fossil generating assets.

**Therefore it is ordered that:**

1. The request of the Southern California Edison Company (Edison) to expand the scope of, and rename, its Divestiture of Fossil Generation Memorandum Account (DFG) Account as requested in Advice Letter 1262-E is denied.
2. Edison may record appropriate transaction costs associated with market valuation of generation assets (if not in conflict with other Commission decisions or the guidance contained in this Resolution) incurred after January 1, 1998 as potential offsets to be credited against CTC Revenues at the time that Edison market values its generation assets.
3. Edison may seek to recover its appropriate transaction costs at the time of market valuation.
4. Edison shall not capitalize any of its transaction costs for ratemaking purposes.
5. Edison shall not include as transaction costs any of its labor costs that D.97-08-056 precluded from recovering in distribution rates.
6. Edison shall include only the costs associated with Edison's role as an impartial seller or valuer of generation assets as transaction costs.
7. Edison shall file an Advice Letter within 30 days of the adoption of this Resolution to revise its Transition Cost Balancing Account tariffs regarding transaction costs to conform with the greater detail contained in the tariffs of PG&E as well as the guidance on appropriate transaction costs contained in this Resolution. The Advice Letter shall be addressed by further order of the Commission



November 4, 1999

8. The protest of the Office of Ratepayer Advocates (ORA) is granted to the extent that: 1) Advice Letter 1262-E is denied; and, 2) limitations on the types of transaction costs that Edison may potentially offset against CTC revenues are established.

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 November 4, 1999; the following Commissioners voting favorably thereon:



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WESLEY M. FRANKLIN  
Executive Director

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