

PUBLIC UTILITIES COMMISSION505 VAN NESS AVENUE
SAN FRANCISCO, CA 94102-3298

May 28, 2003

Agenda ID #2290

TO: PARTIES OF RECORD IN APPLICATION 00-09-014

This is the proposed decision of Administrative Law Judge (ALJ) Patrick, previously designated as the principal hearing officer in this proceeding. It will not appear on the Commission's agenda for at least 30 days after the date it is mailed. This matter was categorized as ratesetting and is subject to Pub. Util. Code § 1701.3(c). Pursuant to Resolution ALJ-180 a Ratesetting Deliberative Meeting to consider this matter may be held upon the request of any Commissioner. If that occurs, the Commission will prepare and mail an agenda for the Ratesetting Deliberative Meeting 10 days before hand, and will advise the parties of this fact, and of the related ex parte communications prohibition period.

The Commission may act at the regular meeting, or it may postpone action until later. If action is postponed, the Commission will announce whether and when there will be a further prohibition on communications.

When the Commission acts on the proposed decision, it may adopt all or part of it as written, amend or modify it, or set it aside and prepare its own decision. Only when the Commission acts does the decision become binding on the parties.

Parties to the proceeding may file comments on the proposed decision as provided in Article 19 of the Commission's "Rules of Practice and Procedure." These rules are accessible on the Commission's website at <http://www.cpuc.ca.gov>. Pursuant to Rule 77.3 opening comments shall not exceed 15 pages. Finally, comments must be served separately on the ALJ and the assigned Commissioner, and for that purpose I suggest hand delivery, overnight mail, or other expeditious method of service.

/s/ ANGELA K. MINKIN
Angela K. Minkin, Chief
Administrative Law Judge

ANG: sid

Decision **PROPOSED DECISION OF ALJ PATRICK** (Mailed 5/28/2003)**BEFORE THE PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA**

Application of SOUTHERN CALIFORNIA EDISON COMPANY (U 338-E) to Review and Recover Transition Cost Balancing Account Entries from July 1, 1999 through June 30, 2000 and Various Generation-Related Memorandum Account Entries.

Application 00-09-014
(Filed September 1, 2000)

(See Appendix A for a list of appearances.)

**OPINION ON 2000 ANNUAL TRANSITION
COST PROCEEDING****I. Summary**

This decision permits Southern California Edison Company (SCE) to recover approximately \$17.1 million in costs accrued in four ratemaking mechanism accounts as of the close of the 2000 Annual Transition Cost Proceeding (ATCP) Record Period. These costs are not precluded from recovery by the Settlement Agreement between SCE and the Commission in Federal District Court (Settlement Agreement).¹

¹ See *Southern California Edison Company vs. Lynch et al.*, Case No. 00-120560-RSWL, US Dist. Court, Central Dist. of Cal., Western Div., Settlement Agreement dated October 2, 2001.

II. SCE's Revised Application

On December 9, 2002, SCE filed a number of documents in its 2000 ATCP. SCE also filed a Petition requesting the Commission to set aside submission of the record in order to allow SCE to withdraw completely all its previously filed testimony, and substitute revised testimony to take into account the impact of the October 2, 2001 Settlement Agreement. In addition, SCE filed an amended application and revised testimony requesting Commission authority to include in its Settlement Rates Balancing Account (SRBA) as recoverable costs the amounts SCE had earned or recorded under the following four ratemaking mechanisms as of the close of the 2000 ATCP Record Period:

1. Palo Verde Nuclear Generating Station (Palo Verde), Nuclear Unit Incentive Procedure (NUIP);
2. Fuel Oil Inventory Memorandum Account (FOIMA);
3. QF Contract Restructuring Shareholder Incentive Subaccount (QFCRSI); and
4. Increased Return on Equity on Divestiture Memorandum Account (IROEDMA).

SCE's original request to transfer the balances earned and/or recorded under these mechanisms to the TCBA for recovery was uncontested. Because Resolution E-3765 eliminated the TCBA, SCE filed a Petition to Set Aside Submission and an amended application requesting Commission approval to transfer these balances to the SRBA which is part of the ratemaking accounting mechanism as recoverable costs.

On January 9, 2003, the Office of Ratepayer Advocates (ORA) filed its response to SCE's Petition, in which it stated that it did not oppose SCE's request

to set aside submission and substitute revised testimony. ORA requested that the Commission consolidate SCE's revised 2000 ATCP with its revised 2001 ATCP, which had been fully litigated and briefed. Also, ORA states there is no need for further hearings or briefs.²

III. SCE's Revised Showing

SCE's 2000 ATCP Revised Report, Exhibit SCE-1, consists of five chapters.

Chapter I describes the background, purpose, and organization of the filing.

Chapter II describes the NUIP rewards for Palo Verde performance. This chapter requests that the Commission approve a NUIP reward of \$8.230 million associated with Palo Verde Unit No. 1, Fuel Cycle 8, and Palo Verde Unit No. 3, Fuel Cycle 8, and authorize SCE to transfer this reward to the SRBA for recovery.

Chapter III describes the operation of the FOIMA, in which SCE records fuel oil inventory carrying costs, and gains and losses on the sale of its fuel oil inventories. As of the close of the 2000 Record Period, this account reflected unrecovered costs of \$5.294 million, including interest through June 30, 2000, which SCE requests authority to transfer to the SRBA for recovery.

Chapter IV describes SCE's restructuring of one QF contract that was approved in D.00-05-018 and recorded in the QFCRSI during the Record Period.³

² The original application of SCE in this proceeding was filed on September 1, 2000. Following extensive settlement discussions between SCE and ORA and hearings on the remaining limited issues, the case was submitted to the Commission with the filing of concurrent reply briefs on June 21, 2001.

³ The shareholder incentives associated with the other QF contracts that were restructured during the 2000 Record Period have already been recovered in other proceedings.

Chapter IV requests Commission permission to transfer the approved \$290,000 incentive, plus associated interest, from the QFCRSI to the SRBA for recovery.

Chapter V describes the operation of the IROEDMA, which tracks the incentive return on common equity and income taxes associated with the divestiture of SCE's fossil generation assets. As of June 30, 2000, this account had a debit balance of \$3.274 million, which SCE requests authority to transfer to the SRBA for recovery, plus any related interest.

IV. Discussion

We grant SCE's Petition to Set Aside Submission and Reopen the Record in its 2000 ATCP (Application (A.) 00-09-014). Accordingly, SCE's original testimony is withdrawn, and its amended application and revised testimony filed on December 9, 2002, is entered into the record by agreement of the parties.

However, we deny ORA's motion to consolidate the 2000 and 2001 ATCPs. While both cases have related issues except for different record periods, the cases have issues that are not common. Only the 2000 case includes a request to recover a shareholder incentive for restructuring a QF contract, and only the 2001 case (A.01-09-004) includes a request to recover the costs of operating the Riverside Canal Generating Plant during the energy crisis. Therefore, we will keep the two cases separate for the sake of clarity.

With regard to the four ratemaking mechanisms remaining in this proceeding, the balances in these accounts are uncontested and should be approved for transfer to the SRBA as recoverable costs. We have reviewed the testimony and conclude that recovery of these balances is consistent with Resolution E-3765.

V. Comments on Proposed Decision

The proposed decision of the ALJ in this matter was mailed to the parties in accordance with Pub. Util. Code § 311(d) and Rule 77.1 of the Rules of Practice and Procedure. Comments were filed on _____, and reply comments were filed on _____.

VI. Assignment of Proceeding

Carl W. Wood is the Assigned Commissioner and Bertram D. Patrick is the assigned Administrative Law Judge in this proceeding.

Findings of Fact

1. Consistent with the Settlement Agreement between the Commission and SCE Resolution E-3765 eliminated the TCBA. The SRBA is now the applicable cost recovery mechanism.

2. We find the following activities and account balances remaining in this proceeding for the 2000 Record Period to be reasonable. These items are undisputed, have been justified, and are in compliance with applicable Commission decisions and resolutions:

- a. Palo Verde Nuclear Generating Station NUIP;
- b. Fuel Oil Inventory Memorandum Account;
- c. QF Contract Restructuring Shareholder Incentive Subaccount; and
- d. Increased Return on Equity on Divestiture Memorandum Account.

Conclusions of Law

1. SCE should be authorized to include in its SRBA as recoverable costs the amounts SCE had earned or recorded under the above four ratemaking mechanisms as of the close of the 2000 ATCP Record Period.
2. This order should be effective today so that the account balances can be recovered expeditiously.

O R D E R

IT IS ORDERED that:

1. Southern California Edison Company (SCE) is authorized to include \$17.1 million of recoverable costs in its Settlement Rates Balancing Account (SRBA), the amounts SCE had earned or recorded under the following four ratemaking mechanisms as of the close of the 2000 Annual Transition Cost Proceeding Record Period:
 - a. Palo Verde Nuclear Generating Station Nuclear Unit Incentive Procedure;
 - b. Fuel Oil Inventory Memorandum Account;
 - c. Qualifying Facility Contract Restructuring Shareholder Incentive Subaccount, and
 - d. Increased Return on Equity on Divestiture Memorandum Account.
2. These costs shall be recovered through the Settlement Rates Balancing Account (SRBA).

3. Within 10 days after complying with Paragraph 1 of this order, SCE shall file an advice letter which will be subject to review and approval of the Energy Division indicating the specific amount transferred from each account to the SRBA.

4. This proceeding is closed.

This order is effective today.

Dated _____, at San Francisco, California.

APPENDIX A

Applicants: David R. Garcia, Attorney at Law; for Southern California Edison Company; and Lise H. Jordan, Attorney at Law, for Pacific Gas and Electric Company; Steven C. Nelson, Attorney at Law and Tom Whelan, for Sempra Energy.

Interested Parties: Michael Alcantar, Attorney at Law, for Cogeneration Association of California; Robert Finkelstein, Attorney at Law, and Jeff Nahigian for The Utility Reform Network; Jan Green, for Grueneich Resource Advocates; Adams, Broadwell, Joseph & Cardozo, by Kate Poole, for Coalition of California Utility Employees; James Ross, for Midway Sunset Cogen Association; Don Schoenbeck, for Coalinga Cogen Company and Alcantar & Kahl, LLP, by Evelyn Kahl, Attorney at Law, for Energy Producers & Users Coalition.

Protestants: Goodin, MacBride, Squeri, Ritchie & Day, LLP, by Jeanne M. Bennett, Attorney at Law, for Enron Energy Services, Inc.; and Scott T. Steffen, Attorney at Law, for Modesto Irrigation District.

Office of Ratepayer Advocates: J. Michael Chamberlain, Attorney at Law, and Donna-Fay Bower.

(END OF APPENDIX A)