

**DRAFT**

**PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA**

**ENERGY DIVISION**

I. D. #6086

**RESOLUTION E-4033**

**November 9, 2006**

**R E S O L U T I O N**

Resolution E-4033. Southern California Edison Company proposal to carry over unspent Research, Development and Demonstration Base Rate Funds.

By Advice Letter 2026-E Filed on August 3, 2006.

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**SUMMARY**

This Resolution approves Southern California Edison's request to carry over \$480,430 of unspent Research, Development and Demonstration (RD&D) base rate funds for use during the 2006 General Rate Case (GRC) cycle. It also approves SCE's request to return \$30, 520 of accumulated interest on these funds through the Base Revenue Requirement Balancing Account (BRRBA).

SCE is required to address the issue of carrying over RD&D funds between rate case cycles in its next GRC.

**BACKGROUND**

**SCE filed Advice Letter (AL) 2026-E on August 3, 2006 requesting Commission authorization to carry over \$480,430 in unspent RD&D funds for use during its 2006 GRC cycle (through 2008).**

SCE proposes to return to ratepayers the accumulated interest from its one-way balancing account, the Research, Development and Demonstration Adjustment Clause (RDDAC), to the Base Revenue Requirement Balancing Account (BRRBA).

**RD&D funds authorized in a GRC may be used in subsequent years through the end of the rate case cycle.**

In D.87-12-066 (SCE's 1988 GRC), the Commission directed SCE to establish and maintain a separate one-way balancing account for RD&D expenditures to insure that funds approved for RD&D would be spent only on RD&D projects or returned to ratepayers with interest. In D.91-12-076 (SCE's 1992 GRC), the Commission specified that within a rate case cycle, funds not used in one year may be used in subsequent years and at the end of the rate case cycle unspent funds would be refunded to ratepayers with interest. However, if SCE overspends its authorized annual budget and does not have unspent funds carried over from prior years to offset the overexpenditures, the expenses are not recoverable from ratepayers and may not be recorded in the one-way balancing account.

**SCE requests to carry over unspent RD&D funds between GRCs.**

In AL 2026-E SCE reports the unspent funds, including interest calculated on the annual average fund balance recorded in the RD&D one-way balancing account by year for the period May 22, 2003 through January 11, 2006, its 2003 GRC cycle. SCE requests in its advice letter that the unspent funds of \$480,430 be carried over in its RDDAC for use during the 2006 GRC cycle through the end of 2008. SCE proposes that the accumulated interest of \$30,520 be returned to ratepayers through the operation of the BRRBA.

**Limited funding allocations and resources cause many RD&D projects to continue from one GRC to another.**

SCE states that the Commission authorized in D.04-07-022 a \$1.6 million annual funding level during the 2003 GRC cycle to support a variety of RD&D projects<sup>1</sup>. SCE explains that limited funding allocations and resources cause many projects to continue from one GRC to another. SCE also notes that uncertainty about the impact that a 2006 GRC decision would have on SCE's RD&D program delayed the start of new projects until funding was ultimately approved by D.06-05-016 in Phase 1 of its 2006 GRC, Application (A.) 04-12-014.

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<sup>1</sup> The Commission, in D.04-07-022, authorized \$1.57 million for 2003. The Commission authorized \$1.6 million for 2004 and \$1.66 million for 2005 through the Post Test Year Mechanism.

## **NOTICE**

Notice of AL 2026-E was made by publication in the Commission's Daily Calendar. SCE states that a copy of the Advice Letter was mailed and distributed in accordance with Section III-G of General Order 96-A and to the service list in A.04-12-014.

## **PROTESTS**

Advice Letter AL 2026-E was not protested.

## **DISCUSSION**

**Commission decisions in SCE's 1992 and 1995 GRC proceedings (D.92-12-057 and D.96-01-011) required that unspent RD&D funds at the end of a GRC cycle be returned to ratepayers through a revenue adjustment balancing account (i.e., the ERAM which has been replaced by SCE's BRRBA**

The Commission has authorized RD&D funds to be carried over between attrition years, but not between GRC cycles. SCE described in its advice letter that in D.96-01-011 (SCE's 1995 GRC), the Commission concluded that reconciliation of SCE's balancing account over the 1995 GRC cycle should be consistent with the rules adopted for Pacific Gas and Electric (PG&E) in D.92-12-057 (PG&E's 1993 GRC). That decision stated that a separate account for RD&D funding should accrue annual interest at the short term commercial paper rate and that funds not used in one year of the rate case cycle may be used in subsequent years. The decision further stated that at the end of a three-year GRC cycle any unspent funds would be returned to ratepayers as a credit to the Electric Revenue Adjustment Mechanism (ERAM) balancing account. SCE's BRRBA is the post electric restructuring successor to the ERAM balancing account.

**Unspent RD&D funds were not addressed in SCE's last GRC.**

In the decision in SCE's most recent (2006) GRC, D.06-05-016, the Commission did not address the issue of carrying over unspent RD&D funds; it only addressed the amount of SCE's RD&D funding request of \$4.2 million. Upon a recommendation of the Division of Ratepayer Advocates (DRA), the Commission granted an RD&D funding level of \$1.6 million on an annual basis, stating that

SCE had not substantiated its request with sufficient detail to grant its request. The amount of RD&D funding that SCE requests in AL 2026-E to be carried over into the 2006 GRC cycle is close to \$500,000. If carry over of the unspent funds is granted, the initial 2006 RD&D balance will be approximately \$2.1 million.

**SCE's request deviates from Commission policy regarding carry over of RD&D funding between GRC cycles.**

In 2004, the Energy Division approved SCE's request made in AL 1823-E to carry over \$236,643 in RD&D funds for use in SCE's 2003 GRC cycle, while transferring the interest to ratepayers through its BRRBA. SCE reported annual expenditures of \$1.2 million from 1998 through May 22, 2003 in that advice letter. After its 1995 GRC, SCE did not file another GRC application until May 2002, its 2003 GRC (A.02-05-004). D.04-07-022, the Phase 1 decision in SCE's 2003 GRC did not specifically address RD&D. SCE's previous GRC, its 1995 case, was addressed by D.96-01-011.

In AL 2026-E, SCE is requesting the same treatment as it proposed in AL 1823-E and was made effective by Energy Division, i.e., to carry over an unspent amount of RD&D funding from a previous GRC cycle, and to return the interest to ratepayers through the BRRBA. The Commission's policy adopted in SCE's 1992 and 1995 GRC decisions, D.92-12-057 and D.96-01-011, respectively, and in PG&E's 1992 GRC decision, D.91-12-076, require that unspent RD&D funds at the end of a GRC cycle be returned to ratepayers through a revenue adjustment balancing account (i.e., the ERAM which has been replaced by SCE's BRRBA). SCE's request in AL 2026-E, and what Energy Division made effective by approving AL 1823-E deviate from this policy, since not all of the monies will be returned to ratepayers, only the interest.

**The magnitude of RD&D projects and funds has diminished greatly since restructuring pursuant to AB1890.**

Prior to implementation of electric restructuring, SCE's RD&D budget adopted in D.96-01-011 was very large. This was due primarily to the funding level for generation research projects. In that case, the Commission chose to not carry

over RD&D funds between GRC cycles and preserved the principle of returning unspent funds to ratepayers<sup>2</sup>.

After restructuring, the utilities' RD&D projects are related to Transmission and Distribution utility functions and no longer consist of generation-related projects. The RD&D policies of pre-electric restructuring were designed to provide a balanced portfolio of programs addressing supply, transmission, distribution and demand-side management areas, with energy conservation especially emphasized.<sup>3</sup> While major program and funding changes have occurred, RD&D policies concerning the carry over of funds from one GRC cycle to the next, the balancing accounts, and fund shifting have not been addressed since 1996.

**It is appropriate to allow SCE to carry over its 2003 GRC cycle funds to its 2006 GRC cycle as it requests in AL 2026-E, because this will allow SCE to continue pursuing RD&D projects started during the 2003 cycle and adequately fund new projects.**

For the same reason, we also affirm Energy Division's prior approval of SCE's request in AL 1823-E to carry over funds to its 2003 GRC cycle.

**SCE should address the issue of carrying over RD&D funds from one GRC cycle to the next in its 2009 GRC application.**

In this resolution we direct SCE to propose in its next GRC application for our consideration what policies SCE believes are appropriate for carrying over RD&D funds as well as any other related issues. This will provide an opportunity for the Commission to revisit policies on the carry over of RD&D funding and allow us to modify those policies if necessary to reflect changes in the electric industry since the 1990's.

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<sup>2</sup> In D.96-01-011, the requested RD&D budget of \$50 million in 1992 dollars was reduced to \$27 million in anticipation of electric restructuring. Passage of Assembly Bill 1890 in 1996 (AB1890) enacted Public Utilities Code Section 381 which transferred the majority of these funds to the California Energy Commission. D.97-02-014 and D.97-11-022 addressed the amounts and allocation of these funds.

<sup>3</sup> D.90-09-045, 37 CPUC 2d, Appendix C, page 398.

## **COMMENTS**

Public Utilities Code section 311(g)(1) provides that a draft resolution be served on all parties and subject to at least 30 days public review and comment prior to a vote of the Commission. Section 311(g)(2) provides that this 30-day period may be reduced or waived upon the stipulation of all parties in the proceeding. The comment period was neither waived nor reduced. Accordingly the draft resolution was issued for comment at least 30 days prior to being considered by the Commission.

## **FINDINGS**

1. SCE filed Advice Letter 2026-E on August 3, 2006 requesting authorization to carry over \$480,430 in unspent RD&D funds from the 2003 GRC cycle and return to ratepayers accumulated interest of \$30,520 from its one-way balancing account, the Research, Development and Demonstration Adjustment Clause (RDDAC), to the Base Revenue Requirement Balancing Account (BRRBA).
2. Advice Letter (AL) 2026-E reports the unspent funds, including the annual average interest calculation on funds recorded in the RD&D one-way balancing account for the period May 22, 2003 thorough January 11, 2006.
3. D. 92-12-057 and D. 96-01-011 required that unspent RD&D funds at the end of a GRC cycle be returned to ratepayers through a revenue adjustment balancing account (i.e., the ERAM which has been replaced by SCE's BRRBA).
4. Within a rate case cycle, RD&D funds not used in one year may be used in subsequent years, and at the end of the rate case cycle unspent RD&D funds will be refunded to ratepayers, with interest.
5. SCE's request deviates from the carry over policy established in the 1990's for RD&D funds by returning the interest to ratepayers, but not the funds.
6. Unspent RD&D funds were not addressed in SCE's 2003 or 2006 GRCs.

7. SCE should be allowed to carry over unspent RD&D funds from its 2003 GRC cycle to its 2006 GRC cycle to allow SCE to continue pursuing projects begun during the 2003 GRC and to adequately fund new projects.
8. In its 2009 GRC application, SCE should propose the appropriate policy for carrying over of RD&D funds between GRC cycles.
9. Energy Division's approval of SCE's AL 1823-E should be affirmed.

**THEREFORE IT IS ORDERED THAT:**

1. Southern California Edison Company is authorized to carry over unspent RD&D funds of \$480,430 from its 2003-2005 GRC cycle to its 2006-2008 GRC cycle in its Research, Development and Demonstration Adjustment Clause, as requested in Advice Letter AL 2026-E.
2. Southern California Edison Company is authorized to refund interest to ratepayers through its Base Revenue Requirement Balancing Account, as requested in Advice Letter AL 2026-E.
3. SCE shall address the policy for carrying over RD&D funds between GRC cycles in its 2009 GRC application.
4. Energy Division's approval of Advice Letter 1823-E is affirmed.

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 9, 2006.

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STEVE LARSON  
Executive Director