

Decision 10-05-008 May 6, 2010

**BEFORE THE PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA**Application of Southern California Edison  
Company (U338-E) for Recovery of Peaker Costs.Application 07-12-029  
(Filed December 31, 2007)**DECISION GRANTING RECOVERY OF PEAKER COSTS TO  
SOUTHERN CALIFORNIA EDISON COMPANY****1. Summary**

This decision authorizes Southern California Edison Company (Edison) to recover the reasonable capital and operating costs for four peaker units, which are owned and operated by Edison. The costs associated with these four peaker units were included in customer rates and subject to refund in Edison's Peakers Generation Memorandum Account which was authorized by Resolution E-4031. These costs are no longer subject to refund. This is the second and final phase of the proceeding. This proceeding is closed.

**2. Background**

On December 31, 2007, Southern California Edison Company (Edison) filed Application (A.) 07-12-029 for the recovery of the four peaker units' costs. Edison has built in its service territory four peaker units, 49 megawatt (MW) each, that provide additional capacity and collateral grid-reliability benefits. Edison filed Advice Letter 2031-E for interim treatment of the costs of the peakers, and Resolution E-4031, issued November 9, 2006, set forth the procedures for the interim tracking of the peaker installation and acquisition costs. Resolution E-4031 directed Edison to file an application to demonstrate the

reasonableness of these costs and to address Edison's recovery of the associated revenue requirement for 2007-2008.

Edison filed this application seeking allocation of the resource adequacy capacity and the costs of the energy from the peaker units to all benefitting customers, and not just to its bundled customers, although the peakers are owned by Edison.

In phase 1, Decision (D.) 09-03-031 the Commission found it reasonable to adopt Edison's proposed method of allocation, to all benefitting customers, consistent with the Joint Parties' proposal described in D.06-07-029 (but excluding an auction).<sup>1</sup> This allocation authority will expire in 10 years from the date of the commercial operation for each unit, consistent with D.07-06-022, D.06-07-029, and D.08-09-012. We found that allocating the cost to all benefitting customers was a matter of equity and fairness; it would be unreasonable to arbitrarily limit the allocation according to D.06-07-029 when addressing a situation not contemplated when we adopted the general allocation policy.

### **3. Phase 2 of Proceeding**

The June 9, 2009 Assigned Commissioner's Ruling and Scoping Memorandum (Scoping Memo) determined that "the scope of issues to be addressed in this proceeding are the reasonableness of the costs Edison incurred to acquire and install four peaker generation units, the costs to operate and maintain the peakers from August through November 2007, and appropriate authority to recover the resulting revenue requirement in customer rates."

---

<sup>1</sup> D.06-07-029, at 14-18.

(Scoping Memo at 3.) On June 17, 2009, Edison served updated testimony for actual costs through December 2008. (Ex. SCE-2.)

The Scoping Memo also determined, and this decision affirms, that Edison bears the burden of proof to show that its requests are just and reasonable and the related ratemaking mechanisms are fair. (*Id.*) The record for this phase of the proceeding consists of all filed and served documents, including the prepared testimony served by Edison and the Division of Ratepayer Advocates (DRA), the only two active parties in this phase.

### **3.1. Costs to Acquire and Install the Units**

Edison incurred a total cost for acquisition and installation for the four units of \$260.121 million. (SCE-2 at 8.) DRA only addressed the first Scoping Memo question, whether the costs Edison incurred to acquire and install four peaker generation units was reasonable. In its prepared testimony, DRA's witness describes his analysis which included comparing Edison's actual costs to a proxy predicated on the California Energy Commission's "Comparative Costs of California Central Station Electricity Generation Technologies" a Final Staff Report dated December, 2007. (Ex. DRA-1 at 1, footnote 2.)<sup>2</sup> DRA found that Edison's cost (net of extra features) was approximately \$1,067/ Kilowatt (kW) compared to the study's cost of \$1,053/kW, which is very close, and that DRA also reviewed and considered additional features included in the Edison

---

<sup>2</sup> DRA's prepared testimony was timely served on September 11, 2009. There was no objection to the testimony and we therefore receive it into the record. Additionally, there was no objection to Edison's phase 2 prepared testimony and we therefore receive it into the record as well.

facilities, for example “Blackstart” capability.<sup>3</sup> In addition, DRA reviewed Edison’s records and testimony, and discussed the need for the additional features which were netted out to derive an installed cost per kW to compare to the California Energy Commission’s proxy.

Based on DRA’s recommendation and our own review of Edison’s prepared testimony, we find the \$260.121 million in costs to acquire and install the four units to be reasonable.

### **3.2. Operating and Maintenance**

Edison incurred \$9.511 million from August 2007, when the four units became operational, through December 2008 for operating and maintenance costs. DRA provided no testimony on this issue. Based on our own review of Edison’s prepared testimony, we find Edison made a sufficient showing to meet its burden of proof to demonstrate the \$9.511 million was reasonable.

### **3.3. Authority to Recover Costs**

Edison has met its burden of proof that the \$260.121 million in costs to acquire and install the four units was reasonable, and that the \$9.511 million in 2007 - 2008 operating and maintenance costs were reasonable. Additionally, in phase 1, D.09-03-031 the Commission found it reasonable to adopt Edison’s proposed method of allocation, to all benefiting customers. Therefore, it is reasonable to allow Edison to recover these costs in rates.

The costs associated with these units, pending this reasonableness review, were included in customer rates and subject to refund in Edison’s Peakers Generation Memorandum Account which was authorized by

---

<sup>3</sup> Blackstart is the ability to start or restore a power generator to operation without relying on energy sources external to the facility.

Resolution E-4031.<sup>4</sup> This memorandum account was to be recovered monthly through Edison's Base Revenue Requirement Balancing Account.

(Resolution E-4031 at Ordering Paragraph 1.) No further ratemaking authority is required because the costs are already included in rates.

#### **4. Comments on Proposed Decision**

This is an uncontested matter in which the decision grants the relief requested. Accordingly, pursuant to Section 311(g)(2) of the Pub. Util. Code and Rule 14.6(c)(2) of the Commission's Rules of Practice and Procedure, the otherwise applicable 30-day period for public review and comment is waived.

#### **5. Assignment of Proceeding**

Michael R. Peevey is the assigned Commissioner and Douglas M. Long is the assigned Administrative Law Judge in this proceeding.

#### **Findings of Fact**

1. Edison reasonably incurred \$260.121 million to acquire and install four peaker units.

2. Edison reasonably incurred \$9.511 million from August 2007 through December 2008 for operating and maintenance costs for the four peaker units.

3. Resolution E-4031 placed the costs of the four peaker units in rates for recovery in Edison's Peakers Generation Memorandum Account and Base Revenue Requirement Balancing Account.

#### **Conclusions of Law**

1. Edison may recover its (1) reasonable costs for acquiring and installing and (2) reasonable operating and maintenance costs for four peaker units.

---

<sup>4</sup> Resolution E-4031, dated November 9, 2006 in Advice Letter 2031, E-filed on August 24, 2006.

2. Operating and maintenance costs after December 2008 are beyond the scope of this proceeding.
3. No additional ratemaking authority is required.
4. Application 07-12-029 should be closed.

**O R D E R**

**IT IS ORDERED** that:

1. Southern California Edison Company (Edison) is authorized to recover in rates \$260.121 million in capital costs to acquire and install four electric generation peaker units. These costs, which were included in Edison's Peakers Generation Memorandum Account, are no longer subject to refund.
2. Southern California Edison Company (Edison) is authorized to recover \$9.511 million incurred as operating and maintenance expenses from August 2007 through December 2008. These costs, which were included in Edison's Peakers Generation Memorandum Account, are no longer subject to refund.
3. Application 07-12-029 is closed.

This order is effective today.

Dated May 6, 2010, at San Francisco, California.

MICHAEL R. PEEVEY  
President  
DIAN M. GRUENEICH  
JOHN A. BOHN  
TIMOTHY ALAN SIMON  
NANCY E. RYAN  
Commissioners