

Decision 08-02-014 February 28, 2008

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

Application of Southern California Edison Company (U 338 E) for Authorization to Recover Costs Incurred in 2005 and 2006 and Recorded in the Bark Beetle Catastrophic Event Memorandum Account.

Application 07-06-008  
(Filed June 5, 2007)

**OPINION GRANTING SOUTHERN CALIFORNIA EDISON COMPANY  
RECOVERY OF 2005 AND 2006 BARK BEETLE COSTS**

**Summary**

This decision grants Southern California Edison Company (SCE):

- (1) Recovery of \$42.160 million in Operational and Maintenance (O&M) expenses recorded in SCE's Bark Beetle Catastrophic Event Memorandum Account (CEMA) for the period of January 1, 2005 through December 31, 2006;
- (2) Authorizes the transfer of \$44.306 million, plus interest to the effective date of today's decision, to the Distribution Sub-account of the Base Revenue Requirement Balancing Account (BRRBA) for recovery in rates; and
- (3) Authorizes SCE to terminate the Bark Beetle Property Owner Tree Removal Reimbursement Program.

**Background**

The mountainous communities served by SCE experienced years of prolonged drought, overstocked forests, and an infestation of bark beetles. In April 2004, The Mountain Area Safety Taskforce, which includes the California Department of Forestry and Fire Protection and the U.S. Forest Service, estimated

there were 13 to 15 million dead, dying and diseased trees in the San Bernardino National Forest, which includes many communities served by SCE. These millions of dead and dying trees created a potential hazard to these communities, and a significant hazard to SCE's electrical facilities that serve these communities. On March 7, 2003, Governor Davis issued a State of Emergency Proclamation (Emergency Proclamation) for the counties of Riverside, San Bernardino, and San Diego. Subsequently, on January 6, 2005, Governor Schwarzenegger issued a Proclamation which extended the directions, order, and authorities of the March 7, 2003 Emergency Proclamation to include affected areas of Los Angeles County.<sup>1</sup> Among other things, the Emergency Proclamations requested that the Commission direct utility companies with transmission lines in Riverside, San Bernardino, San Diego and Los Angeles Counties "to ensure that all dead, dying and diseased trees and vegetation are completely cleared from their utility right-of-ways to mitigate the potential of fire danger."

Under the Commission's existing practices, these proclamations allowed SCE to invoke the Catastrophic Event Memorandum Account (CEMA) in accordance with Pub. Util. Code<sup>2</sup> § 454.9 and Resolution (Res.) 3238 that allows a regulated utility an opportunity to recover reasonable costs to address the event provided that the costs are incremental to existing allowances in rates.<sup>3</sup> In

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<sup>1</sup> The affected areas of Los Angeles County are currently in the San Bernardino National Forest on the eastern edge of the county near the towns of Wrightwood and Mt. Baldy.

<sup>2</sup> All references are to the Pub. Util. Code unless otherwise noted.

<sup>3</sup> The CEMA was authorized in Res. E-3238, effective September 6, 1991.

addition, the utilities were authorized to make annual advice letter (AL) filings requesting recovery of the costs of removal and incremental support costs recorded during a specified period in their CEMAs to allow rate recovery of the amounts determined to have been reasonably incurred.<sup>4 5</sup>

More specifically, Res. E-3238 ordered that a CEMA could record costs for: “(a) restoring utility services to customers; (b) repairing, replacing, or restoring damaged utility facilities, and (c) complying with governmental orders in connection with events declared disasters by competent state or federal authority.” (*Mimeo.*, p. 5.) The March 7, 2003 Emergency Declaration included a request: “. . . that the Public Utilities Commission direct utility companies with transmission lines in Riverside, San Bernardino and San Diego Counties to ensure that all dead, dying and diseased trees and vegetation are completely cleared from their utility right-of-ways to mitigate the potential of fire danger.”<sup>6</sup> Thus, the Bark Beetle CEMA falls within (c) above, complying with a governmental order, to remove dead, dying and diseased trees and vegetation from the utility right-of-ways.

On June 3, 2004, SCE submitted its first annual bark beetle related filing, AL 1801-E, requesting recovery of \$18.08 million of bark beetle related costs recorded in the Bark Beetle CEMA for the period April 3, 2003 through

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<sup>4</sup> Res. E-3824 Ordering Paragraph 3, effective April 3, 2003.

<sup>5</sup> Res. E-3880 modified Res. E-3824 to require Bark Beetle CEMA filings to be applications instead of A.L.

<sup>6</sup> <http://www.gov.ca.gov/index.php?/archive/proclamations>.

December 31, 2003. On September 23, 2004, the Commission issued Res. E-3880 which approved AL 1801-E with a modification.<sup>7</sup>

On December 16, 2005, SCE submitted its second annual filing, Application (A.) 05-12-018, requesting recovery of \$129.5 million of bark beetle recorded costs in the Bark Beetle CEMA for the period January 1, 2004 through December 31, 2004. On October 19, 2006, the Commission issued Decision (D.) 06-10-038 which adopted a settlement agreement between SCE and the Division of Ratepayer Advocates (DRA) which determined that the requested \$129.5 million for bark beetle costs was reasonable.

### **Procedural History**

On June 5, 2007, SCE filed A.07-06-008<sup>8</sup> (Application) which requests that: (1) the Commission find reasonable \$42.160 million of incremental Operation and Maintenance (O&M) expenses recorded in SCE's Bark Beetle CEMA for the period January 1, 2005 through December 31, 2006; (2) authorize the transfer of the December 31, 2006 balance in the Bark Beetle CEMA O&M Cost Sub-account of \$44.306 million, plus interest through the effective date of a decision in this proceeding, to the Distribution Sub-account of the BRRBA for recovery in rates; and (3) authorize SCE to terminate the Bark Beetle Property Owner Tree Removal Reimbursement Program (Reimbursement Program).

DRA protested the application on July 5, 2007 and SCE replied on July 16, 2007. A prehearing conference (PHC) was held on July 31, 2007. At the PHC, DRA indicated it was in the process of evaluating certain data requests and

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<sup>7</sup> SCE's \$18.08 million request was reduced by approximately \$0.457 million.

<sup>8</sup> Attached to A.07-06-008 is CEMA Testimony-2005-2006. This exhibit is identified and received as Exhibit 1.

conducting an audit of Bark Beetle CEMA expenses. On October 9, 2007, DRA sent a letter<sup>9</sup> to the assigned Administrative Law Judge (ALJ) stating that DRA was withdrawing its protest of A.07-06-008. As no other protests were received no hearings were held.

### **Discussion**

As discussed above, the Commission has previously authorized recovery of Bark Beetle CEMA costs including SCE's most recent request for recovery of Bark Beetle CEMA costs in A.05-12-018. D.06-10-038 (p. 6) adopting a settlement in that proceeding concludes that:

- (1) DRA found that [SCE] demonstrated that it exercised reasonable care to minimize all of its bark beetle related costs, adequately controlled the work performed by contractors, and complied with the Commission's requirements for catastrophic event memorandum accounts.
- (2) DRA examined the bark beetle costs to verify that they were incremental, tested accounting treatment of the tree removal invoices of Phillips and Jordan and other tree removal contractors, and tracked in detail the property owner reimbursement process.

In Res. 3824, the Commission authorized SCE to record costs of tree removal and incremental support costs related to the bark beetle infestation in its CEMA. SCE's Exhibit 1<sup>10</sup> provides a detailed explanation of the incremental 2005-2006 Bark Beetle CEMA O&M costs including expenses for project management, bark beetle communications, tree removal, and property owner reimbursement costs.

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<sup>9</sup> The DRA letter is included in the correspondence file.

<sup>10</sup> See, pp. 18-52.

Exhibit 1<sup>11</sup> also explains why the requested 2005-2006 CEMA costs are incremental to and outside of the normal line clearing (vegetation management) costs SCE was authorized in its 2005 and 2006 general rate case (GRC) decisions. In addition, DRA's letter to the assigned ALJ confirms our review of SCE's 2005-2006 Bark Beetle CEMA costs by stating that "DRA has completed its audit and finds no issues on which to file a report or testimony."

We have reviewed Exhibit 1 and the explanations provided and conclude that the requested 2005-2006 CEMA bark beetle costs are reasonable and incremental to the normal line clearing costs we authorized in SCE's 2005 and 2006 GRC decisions.

**SOUTHERN CALIFORNIA EDISON COMPANY  
CEMA 2005 and 2006 Bark Beetle (\$ Millions)**

<b>Line</b>	<b>O&amp;M Cost Subaccount</b>	<b>2005</b>	<b>2006</b>	<b>Combined Total</b>
1	O&M Incremental Cost			
2	• Project Management	0.839	0.753	1.592
3	• Stakeholder Communications	0.041	-	0.041
4	• Tree Removals <sup>12</sup>	16.134	10.810	26.944
5	• Other Operational <sup>13</sup>	3.606	0.871	4.477
6	• Property Owner Reimbursement Related Costs	5.755	3.351	9.106
7	Total O&M Incremental Cost	26.375	15.785	42.160
8	Interest	0.408	1.739	2.146
9	Ending Balance - O&M Cost Subaccount	26.783	17.523	44.306

<sup>11</sup> See, pp. 53-55.

<sup>12</sup> 2006 - Includes Reversal of Phillips & Jordan Accrual of \$ (0.190) million (1/07 Adj.).

<sup>13</sup> 2005 - Includes Mitigation Inspection Costs of \$0.182 million.

In order that SCE recover these reasonable Bark Beetle CEMA costs in rates,<sup>14</sup> we authorize SCE to transfer the December 31, 2006 balance in the Bark Beetle CEMA O&M Cost Sub-account of \$44.306 million, plus interest through the effective date of today's decision in this proceeding to the Distribution Sub-account of the BRRBA.

SCE also requests termination of SCE's Reimbursement Program. SCE states that this program has removed over 53,730 dead and dying trees that could have impacted SCE's electrical lines or facilities and the associated reduction in the fire hazard that these trees created. SCE explains it is no longer necessary to continue the Reimbursement Program as SCE's tree removal contractor has been able to remove dead and dying trees within two weeks of identification by SCE's inspectors and within one month of bark beetle infestation. SCE points to a significant decline in tree removal activity under the Reimbursement Program such that the average number of monthly requests during the last six-months of 2006 has declined to 19 requests from 365 requests in 2004. This has led to a decrease in Reimbursement Program cost effectiveness and decreased need to maintain a large Reimbursement Program staff.

In order that property owners will not be negatively impacted by the termination of the Reimbursement Program, SCE states it will provide property owners with a telephone number to call if they believe they have a dying tree on their property that can impact SCE's electrical lines or facilities. SCE will send an inspector to the property within a week of a call and, if the tree is dying and will

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<sup>14</sup> An increase of \$44.306 million equates to an increase of approximately 0.39% in overall revenues.

impact SCE's electrical lines or facilities, SCE will remove the tree within two weeks of making such a determination.

As it appears that SCE's Reimbursement Program has accomplished its purpose, and in order to reduce Bark Beetle CEMA expenses, and as SCE has stated it will continue to provide essentially the same tree identification and removal service to property owners, we will allow this program to terminate.

### **Categorization and Need for Hearings**

In Resolution ALJ 176-3165 dated June 7, 2007, the Commission preliminarily categorized this Application as Ratesetting, and preliminarily determined that hearings were necessary. Although DRA initially protested the Application, DRA withdrew its protest. Given the status, public hearing is not necessary and the preliminary determinations made in Resolution 176-3193 with regard to categorization and hearings should not be changed. Furthermore, pursuant to Rule 7.3(b) as this is an uncontested matter, and no hearing is necessary, no scoping memo was issued.

### **Waiver of Comment Period**

This is an uncontested matter, in which the decision grants the relief requested. Accordingly, pursuant to Pub. Util. Code § 311(g)(2), the otherwise applicable 30-day period for public review and comment is being waived.

### **Assignment of Proceeding**

Timothy Alan Simon is the assigned Commissioner and Bruce DeBerry is the assigned ALJ in this proceeding.

### **Findings of Fact**

1. SCE incurred the Bark Beetle costs in response to a declared state of emergency, and in compliance with a governmental order, to remove dead, dying and diseased trees and vegetation from the utility right-of-ways.

2. SCE incurred Bark Beetle costs of \$42.160 million from January 1, 2005 through December 31, 2006.

3. SCE's Bark Beetle costs of \$42.160 million incurred from January 1, 2005 through December 31, 2006, are reasonable and incremental to normal line clearing costs we authorized in SCE's 2005 and 2006 GRC decisions.

4. SCE has experienced a significant decline in tree removal activity under the Reimbursement Program.

5. SCE has significantly reduced the inventory of trees requiring removal under the Reimbursement Program.

6. SCE has stated inspectors will timely respond to property owner requests and remove trees impacting SCE's lines or facilities if appropriate.

7. Continuation of the Reimbursement Program is not cost effective.

8. The Reimbursement Program should be terminated.

### **Conclusions of Law**

1. The disaster declarations issued by Governors Davis and Schwarzenegger constitute events declared to be a disaster by competent state or federal authorities for purposes of Section 454.9.

2. SCE's use of the CEMA for recording and recovering costs incurred between January 1, 2005 through December 31, 2006, and taking the necessary steps directed by the Emergency Proclamation is appropriate under Section 454.9 and Res. E-3238.

3. Bark Beetle costs of \$42.160 million incurred by SCE between January 1, 2005 and December 31, 2006 are reasonable.

4. There are no disputed issues of fact and therefore no hearings are necessary in this proceeding.

5. Application 07-06-008 should be closed.

**O R D E R**

**IT IS ORDERED** that:

1. Southern California Edison Company (SCE) is authorized to transfer the December 31, 2006 balance in the Bark Beetle Catastrophic Event Memorandum Account Operational and Maintenance Cost Sub-account of \$44.306 million, plus interest through the effective date of this decision, to the Distribution Sub-account of the Base Revenue Requirement Balancing Account for recovery in rates.

2. SCE is authorized to terminate its Bark Beetle Property Owner Tree Removal Reimbursement Program.

3. This order is a final determination that a hearing is not needed in this proceeding.

4. Application 07-06-008 is closed.

This order is effective today.

Dated February 28, 2008, at San Francisco, California.

MICHAEL R. PEEVEY  
President

DIAN M. GRUENEICH

JOHN A. BOHN

RACHELLE B. CHONG

Commissioners

Commissioner Timothy Alan Simon, being necessarily absent, did not participate.