PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

ENERGY DIVISION | **RESOLUTION E-3904**
JANUARY 13, 2005

R E S O L U T I O N

Resolution E-3904. San Diego Gas and Electric Company (SDG&E) submits an Advice Letter containing its first annual filing requesting recovery of costs recorded in the bark beetle Catastrophic Event Memorandum Account (CEMA) for the period April 3, 2003 through August 31, 2004. SDG&E's request is approved with modifications.

By SDG&E Advice Letter 1623-E filed on September 21, 2004.

SUMMARY

San Diego Gas and Electric Company's (SDG&E) request to recover the costs of tree removal and incremental support costs recorded in its Catastrophic Event Memorandum Account (CEMA) associated with the bark beetle infestation for the period April 3, 2003 through August 31, 2004 is approved, with the modification that SDG&E shall file by application, instead of by advice letter, for future recovery of bark beetle-related costs booked to the CEMA.

In approving with modifications SDG&E Advice Letter 1623-E, filed on September 21, 2004, the California Public Utilities Commission (CPUC): (1) finds that the $5.898 million of Operation and Maintenance (O&M) expenses recorded in SDG&E's bark beetle CEMA for the period April 3, 2003 through August 31, 2004 is reasonable; (2) authorizes SDG&E to recover these CEMA expenses (plus interest that will continue to accrue through the effective date of this resolution) in electric distribution rates over a twelve months period on or after the effective date of this resolution; and (3) authorizes SDG&E to file by application when seeking recovery of future bark beetle CEMA-related costs (covering recorded costs for the previous calendar year), showing the reasonableness of the requested recovery.

SDG&E Advice Letter 1623-E was not protested.

BACKGROUND

On March 7, 2003 Governor Davis issued a State of Emergency Proclamation for the Counties of Riverside, San Bernardino, and San Diego because of widespread bark beetle infestation.

Over 12 million trees, weakened by years of drought in mountainous regions of San Bernardino, Riverside, and San Diego Counties are dead or dying because of a widespread bark beetle infestation. This situation poses a significant hazard to distribution and transmission lines, and electrical facilities that serve these areas. Among other directives, the Governor's Emergency Proclamation requested that the CPUC, *"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."*

In response to the Emergency Proclamation, the CPUC issued Resolution E-3824 on April 3, 2003.

Resolution E-3824 ordered SCE, Bear Valley Electric District, and San Diego Gas & Electric Company to work with the California Department of Forestry and Fire Protection (CDF) and other appropriate agencies to *"Take all reasonable and necessary actions to implement the provisions of the Governor's State of Emergency Proclamation to mitigate the increased fire hazard by removing dead, dying or diseased trees that may fall or contact distribution and transmission lines within their rights of way …"*

In addition, the CPUC directed the utilities to invoke their CEMA for funding accounting and comply with their CEMA tariff requirements. The resolution authorized the utilities to make annual advice letter filings requesting recovery of the costs of tree removal and incremental support costs recorded during a specified period in their CEMA to allow rate recovery of the amounts determined to have been reasonably incurred. On May 8, 2003, SDG&E notified the CPUC that it had activated its bark beetle CEMA effective April 3, 2003.

Along with federal, state, and local agencies, SDG&E is part of a large-scale effort to remove millions of dead or dying trees in the bark beetle infested areas.

The California Department of Forestry and Fire Protection (CDF) has estimated that 1.3 million dead or dying trees are located within San Diego County. This estimate is expected to grow as the bark beetle infestation continues to spread.

SDG&E organized a team of employees to scope-out and manage the bark beetle problem.

With 328 miles of overhead electric distribution lines serving customers throughout the affected areas, a team of existing SDG&E employees from the Vegetation Management, Supply Management, Construction Contracting, Regulatory Affairs, and various other departments was brought together to manage the bark beetle problem. SDG&E employed a 3-phase approach to the project. The first phase involved "Pre-Inspection," where trees that presented a hazard to the overhead lines were identified. The second phase was "Tree Felling Operations," where the dead and dying trees located within striking distance of the lines were cut down. The third phase was "Site Clean-Up," where the downed trees were removed. As of August 31, 2004, SDG&E has removed 9,290 dead, dying, or diseased trees.

Resolution E-3880 required SCE to file by application for future recovery of bark beetle related costs booked to CEMA.

On June 4, 2004, SCE filed AL 1801-E, requesting recovery of costs recorded in its bark beetle CEMA. As in this current SDG&E advice letter, SCE requested that future bark beetle costs be recovered by the filing of an advice letter. On September 23, 2004, the Commission adopted Resolution E-3880, which ordered SCE to file by application to recover future bark beetle CEMA costs.

NOTICE

Notice of SDG&E AL 1623-E was made by publication in the Commission's Daily Calendar. SDG&E states that a copy of the advice letter was mailed and distributed in accordance with Section III-G of General Order 96-A.

PROTESTS

No protests were received regarding SDG&E's Advice Letter 1623-E.

DISCUSSION

Energy Division has reviewed SDG&E AL 1623-E. Discussion of the relevant facts that lead to our approval of this advice letter with modifications follows.

SDG&E's expenses recorded in the bark beetle CEMA are incremental costs that have not been recovered through existing rates.

CPUC Resolution E-3824 authorized SDG&E to record its costs of tree removal and incremental support costs related to the bark beetle infestation in its CEMA. These incremental costs can include both capital and operating expenses, although through August 31, 2004, SDG&E has incurred no capital costs. Only those costs incurred on or after April 3, 2003, determined by SDG&E to be incremental and appropriately documented are recorded by SDG&E in their bark beetle CEMA. SDG&E states that it is managing the bark beetle project with no staff labor costs being charged to the project. Because these internal costs are already reflected in SDG&E's currently authorized distribution rates, they were not recorded to the CEMA.

SDG&E claims that these incremental costs are not part of its normal business practice, e.g., G. O. 95 tree trimming and vegetation management, and are therefore not funded through existing rates. We find no reason to question this claim. SDG&E is managing the project with no staff labor costs being charged. All costs recorded to the CEMA reflect expenses charged by outside contractors specifically assigned to the bark beetle project.

Incremental bark beetle CEMA costs are recorded for the period April 3, 2003 – August 31, 2004.

In its advice letter, SDG&E seeks to recover a total of $5.898 million in eligible bark beetle CEMA costs. This amount includes interest expense through August 31, 2004 calculated on a monthly basis using the three-month commercial paper rate. Interest will continue to accrue through the effective date of this resolution. All of the bark beetle costs incurred so far (through August 31, 2004) have been expense related; SDG&E has not incurred any capital-related costs.

Of the total bark beetle costs booked to the CEMA so far, $4.163 million was incurred during 2003 (from April 3 through December 31) for the removal of 7,821 dead, dying, or diseased trees; for 2004 (through August 31), an additional 1,469 trees were removed at a cost of $1.735 million.

In AL 1623-E, SDG&E provided a discussion of the 3-phase approach it took to managing the bark beetle problem.

SDG&E employed a 3-phase approach to tackle the bark beetle infestation. Below is a brief description of each phase.

- Phase I (Pre-Inspection) – The first phase is to pre-inspect all the overhead lines within the project area and identify all the trees that present a threat to the lines. Because affected trees are identified throughout all phases of the project, pre-inspection is a continual process.
- Phase II (Tree Felling Operations) – The process of cutting down dead and dying trees located within striking distance of overhead power lines. This involves the use of 2 or 3 person lift crews and climbing crews, ground crews, and various sized crane operations.
- Phase III (Site Clean-Up) – The third phase involves on-site treatment or removal of the downed trees. Depending on the location, a treatment method will be prescribed by the Forester. The highest priorities for clean up operations are given to the areas of greatest concern should a wild fire occur.

SDG&E found that due to the magnitude of the bark beetle infestation, local tree removal resources were insufficient for the scope of the project. As a result, 20 additional contract crews from out of the area were called in to support the project.

SDG&E's distribution rates will increase slightly as a result of this resolution.

The transfer of the bark beetle CEMA costs to electric distribution rates will result in a slight increase to SDG&E's customers (i.e., both bundled service and direct access customers.) Since all bark beetle CEMA costs are distribution and transmission-related costs that fall under the jurisdiction of the CPUC, it is reasonable to include them for recovery in distribution rates.

The August 31, 2004 bark beetle CEMA balance of $5.898 million will continue to accrue interest expense through the effective date of this resolution. Thus, the actual final amount transferred from the CEMA will be slightly higher. These costs will increase the total system average rates by approximately 0.18%.

Recovery for bark beetle CEMA costs in future years shall be made by application, not an advice letter.

In Resolution E-3824 (the resolution authorizing the utilities to invoke their CEMA accounts for this tree clearing emergency), Finding No. 4 states: *The utilities are authorized to make annual advice letter filings requesting recovery of the costs recorded during a specified period in their CEMAs to allow rate recovery of the amounts determined to have been reasonably incurred.* As a practical matter, it is difficult to determine the reasonableness of an expenditure in an advice letter. The Energy Division was able to analyze this advice letter and determine that the requested amounts were reasonably incurred.

We are also mindful of the Commission's concerns (as expressed in SCE's recent bark beetle cost recovery resolution E-3880) that bark beetle costs should be audited. Determining the reasonableness of these expenditures will best be done by the filing of an application, rather than an advice letter. Such applications should be filed as soon as practical after the end of a calendar year, and should include those expense costs that were incurred in the previous year, as well as those capital costs that were booked to plant in the previous year. These applications shall include all workpapers necessary for determining the reasonableness of the expenditures.

COMMENTS

Per statutory requirement, a draft of this resolution was mailed to parties for comments at least 30 days prior to consideration by the CPUC.

Public Utilities Code section 311(g)(1) provides that this resolution must 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 30-day comment period for the draft of this resolution was neither waived nor reduced. Accordingly, the draft resolution was mailed to parties for comments on December 7, 2004, with comments due January 3, 2005. On January 3rd, SDG&E submitted comments; no parties filed any replies.

SDG&E disagrees with the draft resolution's conclusion requiring an application instead of an advice letter filing to seek recovery of its future bark beetle costs.

In SCE's recent bark beetle cost recovery resolution (E-3880), the Commission ruled that bark beetle costs should be audited, which would best be done by the filing of an application. This ruling appears to be just as applicable to SDG&E, and was incorporated into the draft Resolution. SDG&E alleges that there are two key differences that disassociate its bark beetle filing from the concerns addressed in Resolution E-3880. First, SDG&E points out that the amount it is requesting for bark beetle recovery is significantly less than the amount requested by SCE ($5.898 million versus $18 million). SDG&E also notes that its advice letter received no protests, while SCE's was protested by ORA. Second, SDG&E states that it expects future bark beetle costs to decrease, whereas SCE predicted it would incur increasing costs. For these two reasons, SDG&E concludes that it is more reasonable to continue the bark beetle recovery process through the use of advice letters, rather than through the application process, which it believes consumes more resources from both SDG&E and the Commission.

This resolution maintains that an application is the more appropriate mechanism for handling future bark beetle CEMA-related rate changes.

Nowhere in SDG&E's comments does it dispute the fact that an audit of its bark beetle expenditures is desirable, or that an audit can best be conducted by the filing of an application. SDG&E seems to suggest that since it is seeking to recover a lower level of bark beetle expenses than SCE, it ought to be excluded from the same degree of scrutiny. We do not believe that this should occur; if an audit of bark beetle costs is reasonable for SCE, it is also reasonable for SDG&E, regardless of the magnitude of the dollars involved.

We also note that last year, SDG&E filed an application for recovery of CEMA-related costs related to the 2003 Southern California Wildfires. In defining the scope of the proceeding, it was determined that the "reasonableness of the gross amount of Operating & Maintenance Expenses recorded in the Wildfires Account" was an appropriate issue for inclusion. (August 27, 2004 Scoping Memo and Ruling of Assigned Commissioner and Administrative Law Judge in Application 04-06-035, page 3.) SDG&E's comments have not persuaded us to make any revisions.

FINDINGS

1. Resolution E-3824, effective April 3, 2003, directed SDG&E to invoke its CEMA for bark beetle expense accounting.
2. On May 8, 2003, SDG&E notified the CPUC that it activated its bark beetle CEMA effective April 3, 2003.
3. Resolution E-3824 authorized SDG&E to make annual advice letter filings requesting recovery of the costs of tree removal and incremental support costs recorded during a specified period in its CEMA to allow rate recovery.

4. By Advice Letter 1623-E, SDG&E requests to recover the costs of tree removal and incremental support costs recorded in its CEMA associated with the bark beetle infestation for the period April 3, 2003 through August 31, 2004.
5. The $5.898 million in costs recorded in SDG&E's bark beetle CEMA for the period April 3, 2003 through August 31, 2004 is found reasonable.
6. SDG&E's expenses recorded in the bark beetle CEMA are incremental costs that have not been recovered through existing rates.
7. SDG&E requests transfer of the August 31, 2004 balance in the bark beetle CEMA of $5.898 million (plus interest accrued through the effective date of this resolution) to electric distribution expenses for recovery in rates over a twelve-month period. The request to transfer the balance is approved.
8. SDG&E's request to implement future bark beetle CEMA-related rate changes coincident with the effective date of CPUC approval of subsequent annual advice letter filings is denied. In future years, SDG&E shall file applications for its CEMA-related tree removal expenditures. Such applications should be filed as soon as practical after the end of a calendar year, and should include those expense costs that were incurred in the previous year, as well as those capital costs that were booked to plant in the previous year. These applications shall include all workpapers necessary for determining the reasonableness of the expenditures.
9. SDG&E Advice Letter 1623-E was not protested.

THEREFORE IT IS ORDERED THAT:

1. The request of SDG&E to recover the costs of tree removal and incremental support costs recorded in its CEMA associated with the bark beetle infestation for the period April 3, 2003 through August 31, 2004, as requested in AL 1623-E, is approved.
2. SDG&E is authorized to transfer the bark beetle CEMA balance as of August 31, 2004 (plus accrued interest) to electric distribution expenses for recovery in rates over a twelve-month period on or after the effective date of this resolution.
3. The request of SDG&E to implement future bark beetle CEMA-related rate changes by advice letter, as requested in AL 1623-E, is denied.
4. Future CEMA-related rate changes shall be filed by application.

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 January 13, 2005; the following Commissioners voted favorably thereon:

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STEVE LARSON
Executive Director

MICHAEL R. PEEVEY
PRESIDENT
GEOFFREY F. BROWN
SUSAN P. KENNEDY
Commissioners