133 FERC ¶ 61,016
UNITED STATES OF AMERICA
FEDERAL ENERGY REGULATORY COMMISSION

Before Commissioners: Jon Wellinghoff, Chairman;
Marc Spitzer, Philip D. Moeller,
John R. Norris, and Cheryl A. LaFleur.

San Diego Gas & Electric Company — Docket No. ER10-2235-000

ORDER ON ANNUAL FORMULA RATE FILING, AND DIRECTING ACCOUNTING CHANGE

(Issued October 8, 2010)

1. On August 13, 2010, San Diego Gas & Electric Company (SDG&E) filed its Transmission Owner formula rate mechanism informational filing as required by a previously approved settlement. As discussed below, in this order we reject SDG&E's proposed accounting treatment and allocation methodology for its wildfire liability insurance premiums.

Background

2. On December 1, 2006, SDG&E filed, under section 205 of the Federal Power Act (FPA),[1] tariff sheets to implement a new Transmission Owner (TO3) formula rate mechanism, which the Commission approved on May 18, 2007.[2]

3. Pursuant to the approved settlement, the formula rate mechanism will remain in effect for six years, from July 1, 2007 through August 31, 2013.[3] The approved settlement also provides for annual informational filings. These annual filings inform the Commission of proposed revisions to SDG&E's base transmission revenue requirement based on certain recorded and estimated costs. The rates established under these annual filings remain in effect beginning September 1 of that year through August 31 of the following year.

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[1] 16 U.S.C. § 824d (2006).

[2] *San Diego Gas & Electric Company*, 119 FERC ¶ 61,169 (2007).

[3] SDG&E, Explanatory Statement in Support of Offer of Settlement, Docket No. ER07-284-000, Article I, section 1.1 at 5 (March 28, 2007).

4. The approved settlement also includes a moratorium on certain changes to the underlying transmission rate formula. Under Article I, section 1.4 of the approved settlement, SDG&E has the burden to demonstrate that the costs contained in its annual informational filings were prudently incurred, accurate, and are recovered consistent with the TO3 formula rate mechanism.[4] Details of SDG&E's August 13, 2010 TO3 Cycle 4 filing[5] are discussed below.

SDG&E Proposal[6]

5. SDG&E's TO3 Cycle 4 rates include a revised base transmission revenue requirement reflecting the following components: (1) base period revenue requirements for the 12-month period ending December 31, 2009; (2) forecast period capital addition revenue requirement for the 17-month period April 2010 through August 2011; (3) true-up adjustments for the 12-month true-up period ending March 31, 2010; and (4) an interest true-up adjustment. SDG&E states that, for the 12-month rate effective period from September 1, 2010 through August 31, 2011, it will collect $327.5 million in revenue from retail end use customers as compared to revenue of approximately $261.3 million under currently effective rates. SDG&E explains that this represents an annual increase of $66.2 million, or a 25.35 percent increase to end-use customers for the rate effective period.[7]

6. SDG&E states that the base transmission revenue requirement in its Cycle 4 filing includes, among other things, a true-up adjustment of $6.7 million for new wildfire liability insurance premiums, which were incurred beginning in July 2009. SDG&E explains that, prior to June 26, 2009, wildfire coverage was included in general liability insurance premiums and accounted for and reported in Account 925, Injuries and Damages, consistent with the Commission's Uniform System of Accounts.[8] According to SDG&E, its insurance provider has since bifurcated its coverage, allowing $400 million for wildfire-specific coverage and $800 million for general liability coverage.[9]

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[4] *Id.* at 6.

[5] The term "Cycle" refers to the number of annual filings made under the applicable formula. Cycle 4 is SDG&E's fourth annual filing under the TO3 formula.

[6] SDG&E's TO3 Cycle 4 filing is extensive. Thus, we have summarized only those provisions that are relevant to this order.

[7] SDG&E, August 13, 2010, TO3 Cycle 4 Filing, Transmittal Letter at 3.

[8] 18 C.F.R. Part 101 (2010).

[9] SDG&E, August 13, 2010, TO3 Cycle 4 Filing, Volume 2-A Wildfire Insurance Reports at 4.

7. The TO3 formula currently in effect allows recovery of insurance premiums and associated costs properly recorded in Account 925 and allocates these costs based upon labor ratios to its operating functions. In this filing SDG&E proposes to (1) allocate wildfire liability insurance premiums among its transmission and distribution operating functions using a proposed circuit-mile allocation method based on the ratio of overhead electric transmission and distribution circuit-miles in wildfire prone areas (circuit-mile allocator); and (2) expense the transmission portion of these premiums to Account 566, Miscellaneous Transmission Expenses.[10]

8. SDG&E states it has allocated the new wildfire liability insurance premium on the basis of its exposure to potential wildfire losses attributable to the transmission and distribution functions rather than on the use of a labor ratio. Within the wildfire prone areas, SDG&E determined that 77.4 percent of all of circuit-miles were related to distribution, while 22.6 percent were transmission circuit-miles. Thus, SDG&E provides that, out of the total $29.7 million cost of the new wildfire liability insurance premiums, it has allocated $6.7 million to the transmission function and recorded these premiums in Account 566.[11]

Notice of Filing

9. Notice of the SDG&E TO3 Cycle 4 filing was published in the Federal Register,[12] with comments due on or before September 3, 2010. No comments were received.

Discussion

10. As noted above, SDG&E proposes to apply its circuit-mile mechanism to its wildfire liability insurance premium costs (in order to determine what portion of those costs should be allocated to transmission customers), and then directly assign those costs to Account 566. For the following reasons we reject this approach as inconsistent with appropriate accounting under the Uniform System of Accounts, inconsistent with the currently-effective Commission approved formula rate, inconsistent with the settlement under which the Commission approved that formula rate, and inconsistent with the filed rate.

11. First, we find that SDG&E improperly used a transmission circuit-mile allocator to allocate costs to transmission, even though such an allocator is not found in the formula rate contained in the settlement approved by the Commission. In so doing, SDG&E bypassed using the labor ratio allocation required by its current formula, and by not

[10] *Id.* at 5.

[11] *Id.*

[12] 75 Fed. Reg. 51,992.

following the formula rate SDG&E failed to charge the rate on file with the Commission.[13] SDG&E acknowledges that its previous annual rate filings have utilized a multi-factor allocator for general liability insurance premiums that was approved by the California Public Utilities Commission in SDG&E's 2008 general rate case. SDG&E states that the portion of general liability insurance premiums allocated to its electric division are recorded in Account 925 and then allocated to its electric distribution and transmission functions using the Transmission Wages and Salaries Allocation Factor (i.e., the Commission's standard labor ratio methodology). We find that this approach, which SDG&E used in previous cyclical filings and which it proposes to continue to use in the current TO3 filing for the general liability portion of the newly bifurcated liability insurance premiums, is consistent with the rate settlement and the Commission's accounting and financial reporting rules and regulations under the Uniform System of Accounts.

12. Second, we also find that SDG&E's proposal to book wildfire insurance premiums to Account 566 instead of Account 925 is inappropriate because it is inconsistent with the Uniform System of Accounts. Wildfire insurance premiums are more akin to an administrative and general (A&G) expense of SDG&E's utility business rather than costs associated with operating the transmission system.[14] On the other hand, Account 566 is a transmission function expense account that includes costs directly related to transmission functions that are not provided for in other accounts. However, the cost of insurance premiums to protect the utility against injury and damage claims, losses not covered by insurance, and expenses incurred in the settlement of such claims, should be recorded in Account 925.[15] Thus, SDG&E's recording of these costs in Account 566 is inconsistent with the Uniform System of Accounts and would result in wildfire liability premiums being inappropriately combined and allocated with many other costs in the account, thereby reducing transparency. Therefore, we reject SDG&E's proposal to allocate wildfire liability insurance premiums directly to Account 566, and instead require SDG&E to report the wildfire liability insurance premiums in Account 925, consistent with our accounting and financial reporting rules and regulations, and with the underlying settlement. This approach will maintain the Commission's goals of uniform, consistent, and comparable accounting and financial reporting. SDG&E has failed to provide any

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[13] *See, e.g., Corporation Commission of the State of Oklahoma v. American Electric Power Company, et al.*, 130 FERC ¶ 61,120 (2010). (The Commission found that the Company violated the filed rate doctrine by unilaterally changing the allocation formula under its system agreement).

[14] A&G expenses are those operating expenses which are generally attributable to all operating functions and not directly associated with the provision of a service or production of goods.

[15] 18 C.F.R. Part 101 (2010).

support or evidence that the proposed accounting treatment and the resulting rates are just and reasonable and in conformance with the Commission's accounting and financial reporting rules and regulations.

13. In summary, SDG&E's proposal to allocate the wildfire portion of its newly bifurcated liability insurance coverage using its proposed circuit-mile mechanism and record the transmission portion to Account 566 represents a departure from the Commission's accounting requirements and an attempt to bypass its rate settlement.[16] SDG&E's rate settlement includes a moratorium on changing the underlying formula. Nevertheless, its proposal has the effect of changing the method for recording wildfire related liability insurance premiums by using a novel accounting approach to achieve a desired rate allocation that is different from the allocation required by SDG&E's current formula.

14. Therefore, SDG&E is directed to file, within 30 days of the issuance of this order, revised worksheets demonstrating the appropriate accounting and allocation methodology for wildfire liability insurance premiums, as explained above. Furthermore, we will require SDG&E to file, within 30 days of the issuance of this order, a refund report detailing any refunds required as a result of SDG&E's corrected accounting and allocation methodology for its TO3 Cycle 4 rates.

The Commission orders:

(A) SDG&E is hereby directed to file revised worksheets as discussed above, within 30 days of the date this order issues.

(B) SDG&E is hereby directed to file a refund report as discussed above, within 30 days of the date this order issues.

By the Commission.

(S E A L)

Kimberly D. Bose,
Secretary.

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[16] *See* TO3 Tariff, section 34.