139 FERC ¶ 61,188
UNITED STATES OF AMERICA
FEDERAL ENERGY REGULATORY COMMISSION

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

San Diego Gas & Electric Company Docket No. ER12-1417-001

ORDER CONDITIONALLY ACCEPTING TARIFF REVISION

(Issued June 8, 2012)

1. On March 30, 2012, as amended April 9, 2012, San Diego Gas & Electric Company (SDG&E) filed proposed Appendix X to its currently-effective Transmission Owner (TO) Tariff. Appendix X includes a formula for the recovery of operation and maintenance (O&M) costs that SDG&E intends to charge Citizens Sunrise Transmission, LLC (Citizens), a wholly-owned subsidiary of Citizens Energy Corporation, to lease the transfer capability over a portion of the Border-East Line of the Sunrise Powerlink Transmission Project (Sunrise Project), subject to an annual true-up.[1] As discussed below, this order conditionally accepts SDG&E's proposed Appendix X, effective June 1, 2012, as requested, subject to a compliance filing.

I. SDG&E's Filing

2. According to SDG&E, pursuant to a 30-year lease agreement, Citizens is entitled to approximately 50 percent of the transfer capability of the Border-East Line, a 30-mile line segment of the Sunrise Project. SDG&E explains that Citizens agreed to finance half of the Border-East Line's costs (a prepayment of $84.7 million) in exchange for a 30-year entitlement to the Border-East Line's transfer capability. SDG&E states that it will operate and maintain the Border-East Line on behalf of Citizens for a charge.[2]

[1] Sunrise Project is a 120-mile, 500 kV transmission line and associated upgrades that will extend from SDG&E's Imperial Valley substation to load-centers in western San Diego County, California.

[2] Title to the Border-East Line will remain with SDG&E and the transfer capability will revert to SDG&E upon expiration of the lease term.

3. SDG&E states that the Commission approved the lease transaction,[3] and established the accounting and ratemaking treatment under the lease arrangement.[4] In its December 2009 Order, the Commission conditionally granted SDG&E's petition to, among other things, record and account for all O&M**,** administrative and general (A&G), and overhead (such as general and common plant) cost reimbursements that it receives from Citizens during the lease term as either a reduction to the applicable expenses or as a miscellaneous revenue credit. SDG&E stated such treatment would either reduce the expense costs recorded in the applicable account for these categories of expenses or increase miscellaneous revenues that it presently flows through under its transmission rate formula. Moreover, SDG&E stated that this treatment of revenue would provide transparent assurance that CAISO customers paying the CAISO's High Voltage Access Charge will not be exposed to the risk of double recovery by SDG&E of O&M, A&G, or overhead costs during the lease term. Further, SDG&E committed to making a future filing with the Commission that detailed the allocation factors it would utilize for O&M, A&G, and general and common plant costs.[5]

4. To this end, in the instant filing, SDG&E proposes a formula rate in Appendix X of its TO Tariff to recover maintenance costs directly assigned to Citizens under the lease agreement between the parties, along with certain "non-direct" expenses and other allocated costs. Specifically, SDG&E states that its formula consists of: (1) a direct charge for transmission maintenance costs from Account 571 (maintenance of overhead lines); (2) non-direct expenses allocated from other transmission O&M and A&G accounts; and (3) other allocated costs that include a portion of Sunrise Project's accumulated deferred income tax liability attributable to bonus depreciation offset by Citizens' accumulated deferred tax asset, property taxes, and annual removal costs tied to the Border-East Line to remove the line once it is retired. With respect to "non-direct" expenses, SDG&E states it developed a total annual carrying charge rate to apply to these expenses – non-direct transmission O&M, payroll taxes, A&G, working capital, and general and common plant expenses – that are then allocated to Citizens. According to Citizens, this allocation method was necessary because these non-direct expenses cannot

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[3] *Citizens Sunrise Transmission, LLC*, 138 FERC ¶ 61,129 (2012).

[4] *San Diego Gas & Elec. Co.*, 129 FERC ¶ 61,233 (2009) (December 2009 Order). This order directed SDG&E to record the original portion of the Border-East Line leased to Citizens in Account No. 104, to depreciate the cost of electric plant recorded in Account No. 104 using Account No. 413 and 108, to record all O&M and A&G expenses related to the leased property in Account No. 413, and to account for Citizen's revenues in Account No. 412. The pre-paid lease payment was to be recorded in Account No. 253 and amortized in Account 412 over the life of the lease. *Id.* P 18.

[5] *Id.* P 6.

be reasonably tracked by opening internal accounting orders, because the creation of such orders would require opening numerous sub-accounts. SDG&E also contends that allocation schemes for all these accounts would be administratively burdensome and unmanageable to ensure accurate results compared to its proposed allocation method.

5. Additionally, SDG&E states it does not intend to separately record Citizens expenses in FERC accounts in the future, but will treat Citizens' costs as another large transmission project because of the complexity of such an endeavor. For the periods after the initial test period, SDG&E states it will implement an accounting process in which internal accounting orders will be opened to track estimated expenses or the actual direct costs associated with the maintenance of the Border-East Line.

6. SDG&E explains that Appendix X is similar to its currently effective TO Tariff formula rate, which in effect served as a model for the instant proposal. According to SDG&E, the Appendix X formula rate will be revised annually on the basis of costs reflected in an informational filing with the Commission to be made just prior to June 1 of each year, the first day of the rate effective period. The rate effective period will extend from June 1 of each year to May 31 of the subsequent year. SDG&E further asserts that it will modify Appendix X to correspond to any changes approved for its currently effective TO formula. Lastly, SDG&E states its proposed formula rate contains a true-up mechanism for subsequent years. Interest will be added for the period between December 31, the end of the base period, until the new rate goes into effect on June 1, pursuant to section 35.19a of the Commission's regulations.[6] In support of the formula rate proposed in Appendix X, SDG&E submitted direct testimony from three expert witnesses.

7. On April 9, 2012, SDG&E submitted an amendment to correct a number of errors that were part of the proposed Appendix X. According to SDG&E, none of the corrections materially affect its proposed costs or otherwise change the rates SDG&E proposes to charge Citizens. SDG&E was authorized by counsel for Citizens to advise the Commission that Citizens supports the filing of the amendment.

II. <u>Notice and Responsive Pleadings</u>

8. Notices of SDG&E's filings were published in the *Federal Register*, 77 Fed. Reg. 21,554 (2012) and 77 Fed. Reg. 22,567 (2012), with interventions and protests due on or before April 30, 2012.

9. Timely motions to intervene were filed by the California Department of Water Resources State Water Project, Southern California Edison Company, Modesto Irrigation

[6] 18 C.F.R. § 35.19a (2011).

District and the City of Santa Clara, California and M-S-R Public Power Agency. The Cities of Anaheim, Azusa, Banning, Colton, Pasadena and Riverside, California (Six Cities) filed a motion to intervene and protest. Citizens filed a motion to intervene and supporting comments. SDG&E filed a motion to file an answer and answer.

III. Discussion

A. Procedural Matters

10. Pursuant to Rule 214 of the Commission's Rules of Practice and Procedure, 18 C.F.R. § 385.214 (2011), the timely, unopposed motions to intervene serve to make the parties that filed them parties to this proceeding.

11. Rule 213(a)(2) of the Commission's Rules of Practice and Procedure, 18 C.F.R. § 385.213(a)(2) (2011), prohibits an answer to a protest unless otherwise ordered by the decisional authority. We will accept SDG&E's answer because it provided information that assisted us in our decision-making process.

B. Substantive Matters

1. Six Cities' Protest

12. Six Cities filed a limited protest requesting that the Commission direct SDG&E to modify one provision within Appendix X to explicitly require adjustments to the rates produced by the formula if the Commission directs any changes in the cost components underlying the Citizens rate as a result of SDG&E's annual formula rate updates.

13. Six Cities state that SDG&E's proposed Appendix X formula reflects an intention to implement adjustments to Citizens' rates and provide refunds as directed by the Commission. However, Six Cities argue that the proposed Appendix X formula does not expressly provide for SDG&E to reflect in its true-up adjustment costs involving SDG&E's TO rate updates.

14. According to Six Cities, it is necessary to modify certain language in the proposed Appendix X in order to remove any doubt that the accounting treatment used to track cost components included in the Citizens rates will result in the implementation of all adjustments automatically.

2. SDG&E's Answer

15. In its answer, SDG&E states that the modifications proposed by Six Cities are consistent with SDG&E's intent. As a result, SDG&E is willing to accept the modifications to Appendix X proposed by Six Cities.

3. Commission Determination

16. We will accept SDG&E's proposed formula rate, as found in Appendix X to its TO Tariff, subject to a compliance filing, as discussed below. Specifically, we find SDG&E's proposal conforms to the accounting requirements specified in the Commission's December 2009 Order. Notwithstanding the Commission's preference for actual costs, we also find SDG&E's rationale for the allocation of certain non-direct expenses to Citizens reasonable, along with the computational results for the initial test period. With regard to Six Cities' request, the Commission finds that it is appropriate that Appendix X explicitly provide for SDG&E to reflect all Commission directed refunds or adjustments affecting the Border-East Line in the true-up adjustment under SDG&E's proposed formula rate for Citizens. Accordingly, we will direct SDG&E to make a filing within 30 days from the date of this order modifying its proposed Appendix X as described by Six Cities.

The Commission orders:

(A) SDG&E's proposed Appendix X is hereby conditionally accepted, to be effective June 1, 2012, as requested, subject to a compliance filing, as discussed in the body of this order.

(B) SDG&E is hereby directed to submit a compliance filing within 30 days of the date of this order, as discussed in the body of this order.

By the Commission.

(S E A L)

Kimberly D. Bose,
Secretary.