

104 FERC ¶ 61,149  
UNITED STATES OF AMERICA  
FEDERAL ENERGY REGULATORY COMMISSION

Before Commissioners: Pat Wood, III, Chairman;  
William L. Massey, and Nora Mead Brownell.

San Diego Gas & Electric Company

Docket No. ER03-601-001

ORDER DENYING REHEARING

(Issued July 28, 2003)

1. On March 3, 2003, San Diego Gas & Electric (SDG&E) tendered for filing a revised Transmission Owner Tariff (TO Tariff) to reflect proposed changes to the revenue requirements and rates applicable to retail and wholesale customer transmission service. On May 2, 2003, the Commission issued an order<sup>1</sup> which accepted and suspended for five months the tariff sheets proposed by SDG&E, subject to refund, to become effective October 1, 2003.<sup>2</sup> The Commission also established a hearing to address the issues raised by SDG&E's filing. On June 2, 2003, SDG&E requested rehearing of the May 2 Order. As discussed below, the Commission denies SDG&E's rehearing request.

**Background**

2. SDG&E's March 3, 2003 filing proposed to revise its TO Tariff to reflect changes to the revenue requirements and rates applicable to retail and wholesale customer transmission service. As part of the rate changes, SDG&E proposed to modify its TRBAA charge and to adopt a formula rate to derive the charge for transmission service.

3. In the May 2 Order, the Commission accepted and suspended for five months, subject to refund, the tariff sheets filed by SDG&E, and instituted hearing procedures. The Commission found, among other things, that certain components of SDG&E's proposed rate formula were inconsistent with rate formulas that the Commission has accepted in the past and was not shown to be just and reasonable, and as such, the formula should be reviewed in an evidentiary hearing. The Commission also found that one component of the formula would amount to a recovery of 100 percent of construction

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<sup>1</sup>San Diego Gas & Electric Company, 103 FERC ¶ 61,115 (2003) (May 2 Order).

<sup>2</sup>The Commission allowed the Transmission Revenue Balancing Account Adjustment (TRBAA) rate to become effective May 8, 2003, sixty days after filing.

work in progress (CWIP), and that such a mechanism should be reviewed in the hearing to ensure compliance with Sections 35.13(h) and 35.25 of the Commission's regulations.

4. The May 2 Order also rejected a component of the rate formula that proposed to recover 100 percent of cancelled plant costs through the transmission charge.<sup>3</sup> However, because SDG&E was seeking to recover the cost of a specific project (*i.e.*, the Valley Rainbow project) in the proceeding, the Commission set for hearing the matter of cost recovery for that specific project.<sup>4</sup>

### **Request for Rehearing**

5. On June 2, 2003, SDG&E requested rehearing of the May 2 Order. SDG&E challenges the Commission's ruling regarding the finding that the rate formula component that is proposed to recover the cost of capital additions "amounts to a 100 percent recovery of CWIP." SDG&E asserts that it does not intend to recover CWIP, but rather proposes to recover the pro-rated cost of capital additions [to the transmission system] proportionate to the number of months within a given rate period the additions are expected to be placed into service.<sup>5</sup> SDG&E also asserts that the Commission erred in finding that SDG&E's proposal to recover the cost of new capital additions deviated from formula rates previously approved by the Commission. SDG&E therefore requests that the Commission grant rehearing and clarify that SDG&E's proposal does not seek to recover 100 percent of CWIP, and is otherwise consistent with tariff provisions previously accepted by the Commission.

### **Discussion**

6. SDG&E argues that the Commission erred in finding that SDG&E's proposal to recover the cost of new capital additions was inconsistent with Commission precedent. Specifically, SDG&E contends that its proposed formula is consistent with the rate formula that the Commission previously accepted in Boston Edison<sup>6</sup> where the Commission approved a formula rate with a tariff provision closely similar to that

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<sup>3</sup>103 FERC ¶ 61,115 at P 17.

<sup>4</sup>Id.

<sup>5</sup>A rate period is a twelve-month period from June 1 of each year to May 31 of the following year.

<sup>6</sup>Boston Edison Company, 91 FERC ¶ 61,198 (2000).

proposed by SDG&E. SDG&E states that the Boston Edison formula provides for the inclusion of estimated revenue requirement associated with new transmission-related capital addition that Boston Edison proposed to be in service during the subsequent two years after the Boston Edison rate formula became effective. SDG&E also points out that the Boston Edison formula included an annual true-up provision to account for any over or under-recovery of actual costs.

7. The Commission denies rehearing on this issue. In its May 2 Order, the Commission concluded that SDG&E's rate formula was similar to formulas the Commission had accepted in other filings, but deviated from those previously approved.<sup>7</sup> Contrary to SDG&E's assertion, the formula accepted in Boston Edison did not have a component that included in the formula a recovery for future capital additions. Rather, the billing procedures in Boston Edison's tariff stated that the monthly bills will include cost estimates for the specific year.<sup>8</sup> Furthermore, the Commission has recently affirmed the need to show that new plant additions in a rate formula must be consistent with the Commission's regulations.<sup>9</sup>

8. In addition, other components of SDG&E's proposed formula (e.g., inclusion of cancelled project costs) also differentiate SDG&E's formula from that in Boston Edison. Accordingly, the Commission reaffirms its finding in the May 2 Order that SDG&E's rate proposal deviates from those previously accepted by the Commission and SDG&E must show in the hearing that its formula is just and reasonable.

9. SDG&E also asserts that the Commission's finding that the inclusion of future capital additions to the transmission system provides a recovery mechanism of 100 percent of capital additions as CWIP fails to take into account either the weighting mechanism it described in its application or the true-up recovery mechanism. SDG&E explains that the weighting factor reduces its recovery for costs of new capital additions

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<sup>7</sup>103 FERC ¶ 61,115 at P 15.

<sup>8</sup>Boston Edison's formula and cost estimate billing procedure was also limited, at the time of its filing, by a rate settlement that limited the impact of the rate formula to a wholesale revenue requirement of \$1.1 million. SDG&E has no such cap that would apply to its formula output.

<sup>9</sup>See American Transmission Company LLC, 93 FERC ¶ 61,267 at 61,863 (2000) (clarification in footnote 20 that ATCO may support a proposed "Capital Expansion Adder" by seeking to include 50 percent of non-pollution/non-fuel conversion CWIP in its rate proposal, in a future filing).

to an amount directly proportional to the amount of time the newly constructed facilities will be in service during the rate period based upon the number of months, in the rate period, the additions are expected to be in service. It is by that mechanism that SDG&E contends that it will not recover 100 percent of the costs of the new plant additions. Similarly, for that reason, SDG&E asserts that it cannot be construed that the formula seeks to recover CWIP.

10. SDG&E further explains that the annual true-up included in the formula will ensure that there is no over-recovery of the costs of the new capital additions. According to SDG&E, when there is any variation in the projected in-service date, the true-up mechanism will be used to adjust SDG&E's rates in order to reflect the actual in-service dates and the final costs of new capital additions.

11. The Commission also will deny rehearing on this issue. SDG&E points to the testimony included with its filing that depicts its intent to have the cost of capital additions weighted by the number of months in the rate period that the addition is forecasted to be in service.<sup>10</sup> However, SDG&E's formula does not put forward such clarity. In the proposed formula, SDG&E has only identified the component that will recover future plant additions as "Weighted Forecast Plant Additions," with no corresponding definition or calculation as to how that will be developed.<sup>11</sup> Such a proposal lacks the specificity that the Commission requires in formula rates.<sup>12</sup>

12. Finally, the Commission disagrees with SDG&E that the true-up mechanism, as proposed, will correct under or over-recoveries for new plant additions. It is not clear from the rate formula that the true-up will perform as SDG&E suggests. Conversely, it appears that the true-up language omits any changes to the new plant additions. According to Section D.1 of SDG&E's proposed TO Tariff, the true-up mechanism reads as follows:

SDG&E shall determine for each month its actual total recorded cost for which such actual cost data is available of providing

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<sup>10</sup>See Testimony of Steven S. Garwood (Exhibit No. SDG-3) at page 26, line 18 through page 27, line 10.

<sup>11</sup>See SDG&E's TO Tariff, Original Sheet No. 148, Section A.2.

<sup>12</sup>See Maine Yankee Atomic Power Company, 42 FERC ¶ 61,307 (1988), reh'g denied, 43 FERC ¶ 61,453 (1988) (specific formula calculations must be reduced to writing and incorporated into the rate schedule).

transmission service during the applicable Rate Effective Period by application of the formula rate specified in this Appendix VIII, excluding the FC and the True-Up Adjustment components (emphasis added)<sup>13</sup>

13. Accordingly, the Commission finds this formula unclear and requires further investigation in the hearing to clarify both the formula and tariff language.

The Commission orders:

SDG&E's request for rehearing is denied as discussed in the body of this order.

By the Commission.

( S E A L )

Linda Mitry,  
Acting Secretary.

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<sup>13</sup>SDG&E TO Tariff at Original Sheet No. 153; where FC is defined as Forecast Period Capital Addition Revenue Requirements.