186 FERC ¶ 61,223
UNITED STATES OF AMERICA
FEDERAL ENERGY REGULATORY COMMISSION

Before Commissioners: Willie L. Phillips, Chairman;
Allison Clements and Mark C. Christie.

San Diego Gas & Electric Company   Docket No. ER24-524-000

ORDER ACCEPTING INFORMATIONAL FILING

(Issued March 26, 2024)

1. In this order, we accept San Diego Gas & Electric Company's (SDG&E) sixth annual informational filing (Cycle 6)[1] made under its Fifth Transmission Owner Formula Rate (TO5 or TO5 Formula Rate), effective January 1, 2024, as requested. We also direct SDG&E to make certain corrections in its next informational filing, consistent with the terms of its TO5 Formula Rate Protocols (Protocols).

I. <u>Filing</u>

2. On December 1, 2023, SDG&E filed its TO5 Cycle 6 informational filing, which, pursuant to the terms of the TO5 Formula Rate, revises SDG&E's base transmission revenue requirement (BTRR), and transmission rates for retail end use customers and CAISO wholesale customers for the rate effective period beginning January 1, 2024, through December 31, 2024. SDG&E states that the revised rates are based on certain recorded and estimated costs information.[2]

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[1] The term "Cycle," as used in SDG&E's informational filing and this order, refers to the number of annual filings made under the formula rate in effect. Filing at n.1.

[2] *Id.* at 1-2.

3. SDG&E states that its TO5 Cycle 6 BTRR for retail end use customers is approximately $1,015.8 million, representing a $177.5 million decrease, compared to the BTRR for retail end use customers in Cycle 5. SDG&E states that the BTRR for CAISO wholesale customers equals $1,012.4 million, representing a $177.5 million decrease, compared to the BTRR for CAISO wholesale customers in Cycle 5.[3]

4. SDG&E states that a net decrease in transmission rates is attributed primarily to four factors: (1) a decrease in the 24-month total weighted forecast plant additions and the related forecast period capital additions revenue requirements; (2) a True-Up Adjustment over-collection in the instant TO5 Cycle 6 annual informational filing compared to the True-Up Adjustment under-collection in the prior TO5 Cycle 5 annual informational filing; (3) an increase in the prior year revenue requirement, resulting from higher operations and maintenance expenses, depreciation expenses, property taxes, and transmission rate base; and (4) an adjustment to reduce total BTRR for the correction of errors in prior years' annual information filings.[4] SDG&E also states that, in accordance with section D.3 of the Protocols, it updated certain references within its formula rate spreadsheet.[5]

II. Notice of Filing and Responsive Pleadings

5. Notice of SDG&E's TO5 Cycle 6 Filing was published in the *Federal Register,* 88 Fed. Reg. 85,283 (Dec. 7, 2023), with interventions or protests due on or before December 22, 2023. The California Public Utilities Commission (CPUC) filed a notice of intervention. The cities of Anaheim, Azusa, Banning, Colton, Pasadena, and Riverside, California (Six Cities), Northern California Power Agency, State Water Contractors, Southern California Edison Company, and the California Department of Water Resources filed timely motions to intervene. On December 22, 2023, Six Cities filed a protest. On January 8, 2024, SDG&E filed an answer to Six Cities' protest.

III. Procedural Matters

6. Pursuant to Rule 214 of the Commission's Rules of Practice and Procedure, 18 C.F.R. § 385.214 (2023), the notice of intervention and timely, unopposed motions to intervene serve to make the entities that filed them parties to this proceeding.

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[3] *Id.* at 2.

[4] *Id.* at 3.

[5] *Id.* at 4.

7. Rule 213(a)(2) of the Commission's Rules of Practice and Procedure, 18 C.F.R.§ 385.213(a)(2) (2023), prohibits an answer to a protest unless otherwise ordered by the decisional authority. We accept SDG&E's answer because it has provided information that assisted us in our decision-making process.

IV. Substantive Matters

A. Compensation-Related Deferred Tax Assets

1. Six Cities Protest

8. Six Cities argue that SDG&E improperly includes compensation-related deferred tax assets in rate base but does not include the accumulated liability related to that compensation and deferred tax asset as a rate base credit.[6] Six Cities contend that SDG&E's proposed treatment is not reasonable or consistent with Commission precedent, as the Commission has found that a utility may not include accumulated deferred income taxes (ADIT) in rate base if it is not also including the asset or liability related to that ADIT in rate base.[7] According to Six Cities, SDG&E does not need to finance the deferred tax asset related to the accrued bonuses, as SDG&E has already recovered the amount of the expense from ratepayers and has not expended the liability amount. Further, Six Cities argue that ratepayers have already supplied SDG&E with the capital necessary to pay the income taxes that give rise to the deferred tax asset, and that including the deferred tax asset in rate base would obligate ratepayers to pay a return on capital that the ratepayers have already supplied to SDG&E. Six Cities conclude that the Commission should direct SDG&E to remove from rate base the ADIT related to compensation-related costs that are not also credited to rate base.[8]

2. SDG&E Answer

9. In response to Six Cities' objections, SDG&E states that it will correct the inclusion of compensation-related deferred tax assets in rate base in the next informational filing per its TO Tariff.[9]

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[6] Six Cities Protest at 2.

[7] *Id.* at 3.

[8] *Id.* at 4.

[9] SDG&E Answer at 4.

3. Commission Determination

10. We agree with Six Cities that SDG&E erroneously included compensation-related deferred tax assets in rate base, while not including the accumulated liability related to the compensation and deferred tax assets as a rate base credit, inconsistent with Commission precedent.[10] Further, we acknowledge SDG&E's commitment to correct this issue in its next informational filing, consistent with the terms of its Protocols.[11]

B. General Plant Accounts

1. Six Cities Protest

11. Six Cities argue that SDG&E inappropriately recorded production plant costs to general plant accounts and, consequently, has inappropriately allocated those costs to the BTRR.[12] Six Cities state that in an information request, they requested detail supporting SDG&E's capital addition and retirement activity. Six Cities state that they also asked SDG&E why it appears to have recorded production-related plant costs to General Plant accounts. Further, Six Cities state that they asked SDG&E for: (1) an accounting of facility-specific plant costs; (2) an explanation as to why SDG&E recorded the facility-specific costs to General Plant accounts; and (3) clarification as to whether SDG&E delineates capital and operating costs by facility.[13]

12. According to Six Cities, SDG&E responded to Six Cities' requests by noting that, beginning on January 1, 2025, it will revise the account for these costs pursuant to Order No. 898.[14] Further, Six Cities state that SDG&E asserted that FERC Account No. 397, Communications Equipment, is currently the only asset account available for such assets and General Plant is allocated to Transmission, based on the transmission wages and salary allocation.[15] Six Cities argue that SDG&E's assertion that there is no other

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[10] *See Amer. Elec. Power Serv. Corp.*, 178 FERC ¶ 61,208, at P 57 (2022); *Nw. Pipeline Corp.*, 87 FERC ¶ 61,266, at 62,070-71 (1999).

[11] SDG&E, SDG&E TO Tariff Filing, app. VIII, TO app. VIII (13.0.0); *see id.* attach. 1 (Protocols) (1.0.0), § 5; SDG&E Answer at 4.

[12] Six Cities Protest at 4.

[13] *Id.* at 5.

[14] *Id.*; *see Acct. & Reporting Treatment of Certain Renewable Energy Assets*, Order No. 898, 183 FERC ¶ 61,205 (2023).

[15] Six Cities Protest at 5-6.

suitable account is incorrect, as SDG&E could have recorded production plant costs to an appropriate Miscellaneous Power Plant Equipment account. Six Cities conclude that, while Order No. 898 did establish new subaccounts to which certain of these costs related to Production Plant may be booked in the future, the establishment of these new sub-accounts beginning on January 1, 2025, does not obviate the need for appropriate accounting under the existing Uniform System of Accounts (USofA) as of January 1, 2022.[16]

2. SDG&E Answer

13. SDG&E argues that, contrary to Six Cities' assertions, it properly recorded communications-equipment related costs to FERC Account No. 397, a General Plant Account.[17] SDG&E states that FERC Account No. 397 is used to account for the "the cost installed of telephone, telegraph, and wireless equipment for general use in connection with utility operations."[18] SDG&E argues that while Six Cities contend that SDG&E should functionalize its communication-equipment related costs under "Miscellaneous Power Plant Equipment" accounts, communication equipment does not fit within the definition of such accounts.[19]

14. SDG&E reaffirms its response to Six Cities' information request, where it argues that although Order No. 898 established a new FERC Account No. 345.3 to "eliminate ambiguity and ensure greater consistency and transparency in accounting and reporting" costs for computer hardware, software, and communication equipment,[20] the Commission did not find that the current practice of "many utilities" recording hardware, software, and communication equipment costs to general accounts, including to FERC Account No. 397, was inappropriate. Further, SDG&E explains that contrary to Six Cities' assertion, the Commission has not ordered utilities to record communications-equipment related costs to FERC Account No. 345. Rather, SDG&E states that until the new FERC Account No. 345.3 is created on January 1, 2025, it can continue to record communication equipment costs in FERC Account No. 397.[21]

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[16] *Id.* at 6.

[17] SDG&E Answer at 4.

[18] *Id.* (citing 18 C.F.R. § 101, FERC Account No. 397 (2023)).

[19] *Id.* at 5.

[20] *Id.* (citing Order No. 898, 183 FERC ¶ 61,205 at P 99).

[21] *Id.*

3. Commission Determination

15. We find that SDG&E has appropriately recorded communications-equipment related costs to FERC Account No. 397. Following the issuance of Order No. 668, the USofA was updated in 2005 to include accounts for recording computer hardware, software, and communication equipment owned by regional transmission organizations (RTOs), but did not create comparable accounts for non-RTO public utilities and licensees to report these types of assets.[22] As a result, non-RTO public utilities do not record computer hardware, software, and communication equipment uniformly, with many utilities recording these assets in general accounts. To eliminate this ambiguity and ensure greater consistency and transparency in accounting and reporting, the Commission in Order No. 898 created new accounts in each function and subfunction for computer hardware, software, and communication equipment, effective January 1, 2025.[23]

16. Consistent with Order No. 898, we find that SDG&E may continue to record communications-equipment related costs to FERC Account No. 397 until January 1, 2025, at which point SDG&E will be required to record the costs in FERC Account No. 345.3.[24]

C. In-House Fire Brigade Costs

1. Six Cities Protest

17. Six Cities argue that SDG&E inappropriately recorded approximately $2,189,018 of in-house fire brigade costs to transmission operating expense accounts and should record such costs to administrative and general expense accounts.[25] Six Cities explain that such treatment results in an excessive proportion of costs being charged to transmission ratepayers.[26] Six Cities state that in response to an information request, SDG&E provided information about the costs it records to transmission operations and

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[22] Order No. 898, 183 FERC ¶ 61,205 at P 99 (citing *Acct. & Fin. Reporting for Pub. Utils. Including RTOs*, Order No. 668, FERC Stats. & Regs ¶ 31,199 (2005) (cross-referenced at 113 FERC ¶ 61,276), *reh'g denied*, Order No. 668-A, 115 FERC ¶ 61,080 (2006)).

[23] *Id.*

[24] *Id.*

[25] Six Cities Protest at 6.

[26] *Id.* at 6-7.

maintenance expense accounts.[27] Further, Six Cities state that SDG&E explained that line items "Industrial Fire Brigade Services" and "IO rcls Fire Brig cost frm FE566.0" are costs for an in-house stand-by emergency response Fire Brigade Station.[28] Lastly, Six Cities state that SDG&E indicated that the fire brigade services are available to generation and substation facilities and that SDG&E allocated its $2.854 million total company cost for this service between Transmission and Distribution on a 76.70%/23.30% basis.[29]

18. Six Cities argue that based upon SDG&E's responses to their information requests, SDG&E's fire brigade service is for the benefit of SDG&E's functions that should not be accounted for in a transmission operating account. Further, Six Cities argue that the fire brigade service does not appear to be readily segregable by function.[30] Six Cities state that in-house fire brigade costs should be recorded in (1) FERC Account No. 924, Property Insurance; (2) FERC Account No. 923, Outside Services Employed; or (3) FERC Account No. 930.2, Miscellaneous General Expenses.[31]

2. SDG&E Answer

19. SDG&E argues that Six Cities incorrectly assume that the Capstone Industrial Fire Brigade provides a service available for the benefit of all SDG&E functions. Rather, SDG&E asserts that the Capstone Industrial Fire Brigade was contracted to protect specific assets, including the Palomar Energy Center (Generation), as well as all SDG&E transmission and distribution substations. As the fire brigade is contracted to protect these specific assets, SDG&E states that it allocates the cost of this service between Electric Transmission, Electric Distribution, and Generation based on the relative plant values of these assets.[32]

3. Commission Determination

20. We find that SDG&E has improperly recorded its in-house fire brigade costs. SDG&E recorded these costs to operations and maintenance (O&M) accounts such as

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[27] *Id.* at 7 (citing Six Cities Protest, Attachment G at 1).

[28] *Id.* (citing Six Cities Protest, Attachment H at 1-2).

[29] *Id.* (citing Six Cities Protest, Attachment I at 1).

[30] *Id.*

[31] *Id.* at 7-8.

[32] SDG&E Answer at 6.

FERC Account No. 353, Transmission Plant Station Equipment, and FERC Account No. 362, Distribution Plant Station Equipment. The costs of a fire brigade service are not properly recorded under accounts for station equipment. Additionally, SDG&E allocates the cost of this service between Electric Transmission, Electric Distribution, and Generation based on the relative plant values of these assets. SDG&E thus employs the fire brigade service for the benefit of both transmission and non-transmission assets, and we find that the relative value of these assets does not provide an adequate basis for apportioning the costs of a service available to all SDG&E functions.[33] Accordingly, we direct SDG&E to correct this error in its next informational filing, consistent with the terms of its Protocols.[34] SDG&E should record these costs to FERC Account No. 923, Outside Services Employed, or FERC Account No. 924, Property Insurance, if the costs are incurred pursuant to or as a condition of property insurance requirements.[35]

D. CTR SEMP/2100-9503

1. Six Cities Protest

21. Six Cities state that SDG&E includes in the BTRR at least $25,620,495 of unknown costs that are recorded to cost center "CTR SEMP/2100-9503." Six Cities state that SDG&E has not provided sufficient information to determine what these costs are or whether they were properly recorded despite several information requests from Six Cities regarding the cost center. Accordingly, Six Cities argue that these costs should be excluded from the BTRR.[36]

2. SDG&E Answer

22. SDG&E states that cost center CTR SEMP/2100-9503 is only used as a settlement receiving object for all O&M orders as part of SDG&E's automated monthly close process. SDG&E adds that the cost center itself is not considered in any reporting and thus has no meaning or significance to the BTRR. SDG&E asserts that it would be "overly burdensome and unrealistic" for it to explain in detail the hundreds of thousands of line-item transactions of O&M expenses that settled to cost center CTR SEMP/2100-

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[33] *Id.*

[34] SDG&E, SDG&E TO Tariff Filing, app. VIII, TO app. VIII (13.0.0); *see id.* attach. 1 (Protocols) (1.0.0), § 5.

[35] Six Cities Protest at 8.

[36] *Id.* at 10-11.

950.[37] SDG&E states that it nonetheless includes a summary of the costs at issue by FERC account in Attachment A to its answer.

3. Commission Determination

23. We are not persuaded by Six Cities' challenge regarding SDG&E's use of cost center CTR SEMP/2100-9503. As detailed in SDG&E's answer, including Attachment A, the cost center is used as a settlement receiving object for O&M orders, which is not considered in any reporting and does not impact the BTRR. Accordingly, we find it unnecessary to require SDG&E to exclude costs recorded in CTR SEMP/2100-9503.

E. Revenue Credit items

1. Six Cities Protest

24. Six Cities argue that SDG&E excludes from the BTRR certain revenue credits for which SDG&E has not adequately demonstrated that the capital or operating costs incurred to generate those revenues are themselves excluded from the BTRR, totaling $5,059,989. Six Cities state that they sought clarification regarding four revenue items included in the formula rate template in an information request: 4371019 – Other Miscellaneous Revenues, 4371041 – Affil 25% Emply Transfer Fee, 4371093 – Misc Rev – Royalties, and 6271102 - Litigation Expense – SDGE. Six Cities assert that SDG&E's "minimal responses" to this information request do not provide the level of detail necessary to evaluate whether the revenues should be credited to transmission ratepayers.[38] Six Cities argue that the Commission should direct SDG&E to include these revenue credit items in the BTRR because SDG&E is unable to demonstrate that the capital or operating costs incurred to generate those revenues are themselves excluded from the BTRR.

2. SDG&E Answer

25. SDG&E argues that it appropriately excludes from the BTRR the four revenue credit items Six Cities identifies, stating that Six Cities' inability to determine the nature of the four items does not provide a valid basis to protest the exclusion. SDG&E

[37] SDG&E Answer at 7.

[38] Six Cities Protest at 11-12.

provides additional information regarding the four items to "further demonstrate that these revenues are unrelated" to its transmission business.[39]

26. Regarding 4371019 – Other Miscellaneous Revenues, SDG&E states that the revenues in this account are related to manual miscellaneous bill adjustments and fees associated with customer requests such as a specific one-time, non-automated service, field service establishment charges, collection charges, rush jobs, or contractual charges. SDG&E adds that this account contains some miscellaneous corrections that are applied to customer accounts reflecting administrative and customer service transactions that do not utilize SDG&E labor charges or plant assets included in SDG&E's formula rate template.[40]

27. Regarding 4371041 – Affil 25% Emply Transfer Fee, SDG&E states that revenue in this account is related to revenue charged to SDG&E affiliates when an SDG&E employee transfers from SDG&E to an affiliate, as required by the CPUC.[41]

28. Regarding 4371093 – Misc Rev – Royalties, SDG&E states that revenue booked to this account is related to CPUC Advice Letter 3841-E, in which SDG&E received CPUC approval to license certain non-conductive film technology and intellectual property for manufacturing electrically resistant lighter than air balloons to Anagram International, Inc. SDG&E states that because the funding for the underlying technology related to the royalty revenue comes from CPUC-jurisdictional rates and programs, and because the technology is designed to benefit the distribution grid, SDG&E correctly excludes these revenues from its BTRR.[42]

29. Regarding 6271102 - Litigation Expense – SDGE, SDG&E states that revenue booked to this account is due to the reversal of a legal reserve. SDG&E explains that accruals for legal reserves are temporarily recorded to FERC Account No. 456; upon settlement/payment of the legal matter, the reserve is then reversed out of FERC Account No. 456 and recorded to FERC Account No. 426.5 if the matter is deemed to be below the line. SDG&E states that the only reason this account appears to have revenue of $3.5 million in 2022 is because of the portion of the reserve booked as a debit in FERC Account No. 456 in 2021. SDG&E argues that, because that debit was not included in

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[39] SDG&E Answer at 8.

[40] *Id.*

[41] *Id.* (citing CPUC, Decision 97-12-088, App'x A—Affiliate Transaction Rules, Section G 2.c).

[42] *Id.* at 9 (citing CPUC, SDG&E Advice Letter 3841-E at 2, approved May 4, 2022, and effective May 21, 2022).

SDG&E's BTRR in TO5 Cycle 5, it does not make sense to include the reversal of that amount in SDG&E's BTRR in TO5 Cycle 6. SDG&E adds that this final settlement has no impact on its transmission customers because it was booked below the line.[43]

3. Commission Determination

30. Based on the information provided in SDG&E's answer, we find that the four revenue items Six Cities identify were appropriately excluded from the BTRR because they are not related to SDG&E's transmission activities. Therefore, we are not persuaded by Six Cities' challenge on this issue.

F. Recording Capital Expenditures as Operating Costs

1. Six Cities Protest

31. Six Cities assert that SDG&E appears to have recorded capital expenditures as operating costs. Specifically, Six Cities state that SDG&E recorded costs that SDG&E admits are related to "Digital Automation Projects," which "are funding labor and services to develop applications that automate various business processes across both companies."[44] Six Cities argue that these are capital costs and ask the Commission to direct SDG&E to correct this accounting and resulting ratemaking treatment for this cost and any similar items.

2. SDG&E Answer

32. SDG&E states that Six Cities' argument regarding the recording of capital expenditures is based on outdated information. SDG&E explains that although the original entry identified by Six Cities did incorrectly record those costs, SDG&E identified the error and corrected it in the same month. Accordingly, SDG&E states that the capital expenditures were moved from O&M to Capital via Doc Number 10014339, which is included as Attachment C to its answer.[45]

3. Commission Determination

33. We agree with SDG&E that, although the expenditures Six Cities identify were initially erroneously classified as operating costs, SDG&E subsequently identified this

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[43] *Id.* at 9-10.

[44] Six Cities Protest at 12, Attachment K.

[45] SDG&E Answer at 10, Attachment C.

error and reclassified them as capital expenditures. Therefore, we are not persuaded by Six Cities' challenge on this issue.

The Commission orders:

(A) SDG&E's TO5 Cycle 6 Filing is hereby accepted for filing, to become effective January 1, 2024, as requested, as discussed in the body of this order.

(B) SDG&E is hereby directed to make certain corrections in its next informational filing, as discussed in the body of this order.

By the Commission.

(S E A L)

Debbie-Anne A. Reese,
Acting Secretary.

Document Content(s)