PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

ENERGY DIVISION **RESOLUTION E-3880**
September 23, 2004

R E S O L U T I O N

Resolution E-3880. Southern California Edison Company (SCE) 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 December 31, 2003. SCE's request is approved with modifications.

By SCE Advice Letter 1801-E filed on June 4, 2004.

SUMMARY

Southern California Edison Company's (SCE) 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 December 31, 2003 is approved with the following modifications:

- **SCE's request for recovery of $18.080 million is reduced by $456,524.**
- **SCE shall file an application, instead of an advice letter, for future recovery of bark beetle-related costs booked to the CEMA.**

In approving with modifications SCE Advice Letter 1801-E, filed on June 4, 2004, the California Public Utilities Commission (CPUC): (1) finds that the $18.080 million of Operation and Maintenance (O&M) expenses recorded in SCE's bark beetle CEMA for the period April 3, 2003 through December 31, 2003 should be reduced by $456,524; the amount found reasonable is $17.624 million; (2) authorizes transfer of $17.646 million (including interest) of the balance as of December 31, 2003 in the bark beetle CEMA to the Electric Distribution Revenue Adjustment Balancing Account (EDRABA) or the distribution subaccount of the Base Revenue Requirement Balancing Account (BRRBA) for recovery in rates; and (3) authorizes SCE to seek recovery of future bark beetle CEMA-related costs by filing an application (covering recorded costs for the previous calendar year) showing the reasonableness of the requested recovery.

SCE Advice Letter 1801-E was timely protested by the Office of Ratepayer Advocates (ORA).

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 April 4, 2003, SCE notified the CPUC that it had activated its bark beetle CEMA effective April 3, 2003.

Along with federal, state, and local agencies, SCE is part of a large-scale effort to remove the more than 12 million dead or dying trees in the bark beetle infested areas.

SCE estimates that there are at least 350,000 trees that could impact the utility's electrical lines and facilities. This estimate is expected to grow as the bark beetle infestation continues to spread. While SCE is expected to remove all currently dying trees by this fall, the bark beetle will continue to infest new trees until environmental conditions change.

SCE formalized management of its efforts by establishing a Bark Beetle Project Team.

The SCE Bark Beetle Project Team manages the utility's removal of the dead and dying trees in the bark beetle infested areas. The Project Team comprises approximately 60 employees from departments throughout the company whose purpose is to develop a comprehensive program to remove dead and dying trees in the affected areas within the utility's service territory with the commitment to perform the work as safely and quickly as possible. The Project Team is also committed to keeping customers and major stakeholders in the affected areas informed of project activities and progress. As of December 31, 2003, SCE has inventoried approximately 53,000 dead or dying trees that could impact its lines.

In an effort to expedite the tree removal process, on August 8, 2003, SCE submitted Advice Letter (AL) 1730-E requesting approval to reimburse property owners for their tree removal costs. On August 29, 2003, the CPUC Energy Division approved AL 1730-E authorizing SCE to reimburse eligible property owners in accordance with SCE's proposed criteria for trees necessarily removed under this program after April 3, 2003.

As an additional process enhancement, CPUC staff authorized SCE to make eligible reimbursement payments directly to contractors if requested by property owners.

Starting in April 2003, SCE hired contractors to start removing trees on a time and material basis. Between April and December 2003, SCE removed approximately 9,000 trees under time and material contracts with three contractors. In October, SCE awarded a contract to a single contractor to remove

trees on a fixed price basis. Since November, the contractor removed about 300 trees per day, and by December 31, 2003, they had removed approximately 16,900 trees. Overall during 2003, SCE removed approximately 25,900 trees that could have impacted its electrical lines. Since 2004, the contractor has ramped up its operation and is currently removing approximately 700 trees per day.

The reimbursement amount paid to the customer is the lower of their actual tree removal costs or SCE's average removal costs.

Once a reimbursement request is received by SCE, it is reviewed by SCE to ensure it meets the eligibility requirements and the required documentation is included. After the initial review, a trained forest technician visits the property to estimate the height of the tree, verify that the tree could have impacted SCE's electrical lines or facilities, determine the diameter at breast height, and identify the method SCE would have used to remove the trees. Based upon this information, SCE's average tree removal unit costs for each eligible tree are compared with the customer's actual removal cost. SCE's average removal unit costs are grouped into three size classes (less than 20 inches, 20 – 34 inches, and greater than 34 inches diameter at breast height), and four methods of felling (freefall, crane, climb no access, and high hazard.)

NOTICE

Notice of SCE AL 1801-E was made by publication in the Commission's Daily Calendar. SCE states that a copy of the advice letter was mailed and distributed in accordance with Section III-G of General Order 96-A.

PROTESTS

SCE's Advice Letter AL 1801-E was timely protested by the Office of Ratepayer Advocates (ORA) on June 23, 2004. SCE responded to the protest of ORA on June 29, 2004.

The following is a more detailed summary of the three major issues raised in the protest.

- **ORA's first issue is that there is no discussion of the funding already available for tree maintenance that was provided in SCE's last General Rate Case (GRC).**

ORA claims that while the Governor's State of Emergency Proclamation did not address the source of funds to be used for bark beetle-infested tree removal in designated counties, the CPUC has provided O&M funding for this purpose in all past GRCs for utilities with transmission and distribution lines.

SCE asserts that the costs recorded in its bark beetle CEMA are significantly different and higher than SCE's normal tree trimming and vegetation management activities.

In its response, SCE explains that it has set up a separate organization to manage its efforts to remove approximately 350,000 trees that could potentially impact its electric lines and facilities.

SCE's tree trimming and vegetation management program, funded through its GRC, involves inspection and trimming of trees throughout its service territory to maintain the specific electric line clearances (e.g., 18 inches) as specified in General Order (G. O.) 95. These trees, typically within 10 feet or less of SCE's lines, only have to be trimmed to maintain the required clearance to ensure the branches do not come in contact with electrical lines. Tree removal is typically not required. Normal line clearing costs are recorded in two separate accounts: transmission-related work in Account 571.300 and distribution-related work in Account 593.200. In its 2003 GRC for these two accounts, SCE requested a total of $26.7 million escalated to 2003 dollars in transmission rights-of-way and distribution line clearing expenses. SCE notes that recorded 2003 expenditures in these accounts were actually $4.3 million more than requested in the GRC forecast.

SCE states that the CPUC has ordered it to remove entire trees.

SCE explained that in the bark beetle infested areas in which the Governor declared a state of emergency, it has been ordered by the CPUC to remove entire trees. SCE is removing these trees, many over 100 feet tall, to ground level leaving only a several inch stump. To prevent these dead or dying trees from falling or impacting its lines, SCE is removing affected trees up to 100 feet on either side of its electrical lines. SCE characterizes its bark beetle tree removal activities as a major logging operation that is different than its GRC-funded line-clearing program. The bark beetle tree removal costs, which are incremental to what is reflected in rates for normal line-clearing activities, are tracked and

recorded separately in the CEMA in accordance with CPUC authorization. SCE concludes, "*Thus, ORA's concern that there is no discussion of the funding already available for tree maintenance in SCE's last GRC is unwarranted.*"

ORA's concern regarding funding for tree maintenance is valid.

In spite of SCE's claim to the contrary, we share ORA's concern regarding the funding for tree maintenance that was provided in the last GRC. In fact, an Energy Division review of the advice letter indicates that there is duplication between expenses requested in the advice letter and expenses authorized in the last GRC. This is discussed in more detail below.

- **ORA's second issue is that SCE's request for reimbursement of recorded expenses has not been audited to determine reasonableness.**

ORA claims that without an audit, neither ORA nor the CPUC can determine if the requested costs represent the incremental costs that meet the standard criteria for recovery through the CEMA mechanism. ORA states that activities related to tree trimming, tree removal, and vegetation management are expenses that occur regularly and are a part of the expenses included in SCE's GRC rates. ORA claims the CPUC cannot make a reasoned judgment in response to this advice letter filing without knowing how the expenses for the work required for the bark beetle CEMA program differ from the expenses already provided in the last SCE GRC.

SCE replied it is not opposed to an audit of its recorded bark beetle costs and would fully cooperate.

- **ORA's last issue concerns SCE's request for future bark beetle CEMA-related rate changes to coincide with the effective date of CPUC approval of annual advice letter filings.**

ORA protests allowing bark beetle CEMA-related rate changes to coincide with the effective date of CPUC approval of annual advice letter filings because the amounts requested are too small to justify implementing a separate annual rate change. Instead, rate changes should only be implemented in conjunction with other scheduled rate changes such as the Electric Distribution Revenue Adjustment Balancing Account (EDRABA) or the Base Revenue Requirement Balancing Account (BRRBA).

In its response, SCE states that it agrees with ORA's proposed rate recovery approach as long as bark beetle-related expenses recorded in the CEMA remain small, which, *"is why we* (SCE) *proposed this very same rate recovery approach for the $18.1 million bark beetle-related expenses incurred during 2003 and requested in Advice Letter 1801-E."*

As discussed below, both ORA's protest regarding future advice letter rate change timing and SCE's response are moot; we are requiring that future requests to recover bark beetle tree removal costs be made by application, not advice letter.

DISCUSSION

Energy Division has reviewed SCE AL 1801-E. Discussion of the relevant facts that lead to our approval of this advice letter with modifications follows.

SCE's expenses recorded in the bark beetle CEMA are incremental costs that, for the most part, have not been recovered through existing rates.

CPUC Resolution E-3824 authorized SCE to record its costs of tree removal and incremental support costs related to the bark beetle infestation in its CEMA. These incremental costs include both capital and operating expenses. Only those costs incurred on or after April 3, 2003, determined by SCE to be incremental and appropriately documented are recorded by SCE in their bark beetle CEMA.

Because of the differences in ratemaking between O&M and capital expenditures, SCE separated its bark beetle CEMA into two subaccounts: 1) O&M Cost Subaccount, which includes reimbursements, and 2) Capital Cost Subaccount. In its advice letter, SCE seeks to recover a total of $18.102 million in eligible O&M related bark beetle CEMA costs. This amount includes interest expense through December 31, 2003 calculated on a monthly basis using the three-month commercial paper rate.

SCE 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. In 2003, SCE incurred expenses related to a special mitigation inspection that was performed on all circuits in the

bark beetle infested areas. This mitigation inspection is incremental because it is in addition to the regularly scheduled inspections required by G. O. 165.

"Tree Side Trimming" costs involve activities for which SCE receives compensation in the GRC.

In its advice letter, SCE has included a detailed breakdown of its tree removal costs. (Table 3, page 14) Included in this table is a line item for "Tree Side Trims" totaling $456,524. In footnote 16, SCE describes the side trim procedure as follows: *"The dead or dying tree is trimmed at the level of a high-voltage conductor and up on the side where limbs overhang our power lines."* "Tree Side Trimming" is an expense for which SCE has been compensated in its GRC. In its June 29th response to ORA's protest, SCE outlined the line clearing expenses it requested in its 2003 GRC. Including escalation to bring estimates to 2003 dollar levels, SCE requested $2.866 million for Account 571.300 (Transmission Rights-of-Way), and $23.827 million for Account 593.200 (Distribution Line Clearing), for a total of $26.693 million. In D.04-07-022 (the most current SCE GRC decision), no adjustments were made to those accounts; SCE's request was adopted in full. We see no reason why SCE should receive tree-trimming amounts over and above those levels found reasonable in the GRC.

The nature of test year ratemaking is that for some accounts, in some years, utilities will spend more than was authorized. That is normal and is expected, and is offset by other accounts where the utilities spend less. SCE has provided no evidence that the adopted test year levels for these tree-trimming accounts were erroneously derived. SCE has not shown how future tree trimming costs may be impacted by the removal of over 50,000 dead or dying trees near its power lines. SCE is not required to refund dollars from other accounts where expenditures were less than authorized. We therefore disallow the $456,524 SCE has requested for "Tree Side Trims." The level of bark beetle expenditures found reasonable for the period April 3, 2003 through December 31, 2003 is $17.624 million; including interest through December 31, 2003, the amount found reasonable is $17.646 million.

Incremental operating and support costs are recorded for the period April 3 – December 31, 2003.

The incremental operating expenses recorded in the bark beetle CEMA include: contractor costs to identify and remove trees, tree disposal costs, project

management O&M expenses, stakeholder communication expenses, mitigation inspection expenses, other operational expenses associated with de-energizing and re-energizing lines for tree removal and additional inspections, and reimbursement to property owners.

The total tree removal and support costs for the period April 3 – December 31, 2003 recorded by SCE are $18,080,246. Of this total, $15, 515,025 is directly related to removal of approximately 20,100 trees, which includes the costs for tree inventory, obtaining appropriate permissions, environmental compliance, tree side trimming (which is being disallowed), tree removal, and tree disposal. Reimbursements to property owners during this period were $1,285,159.

While SCE removed approximately 25,900 trees during 2003, approximately 5,800 of the trees were not invoiced by December 31, 2003; thus their removal costs will be reflected in 2004.

In 2004 through 2006, SCE expects to incur incremental capital costs related to the installation of new poles and associated hardware resulting from the removal of trees that had electrical equipment (e.g., service drops, conductors, guy wires, etc.) attached to them.

SCE has identified approximately 3,000 trees that need to be replaced with new poles. Since these are new poles, the incremental capital costs include all costs associated with the installation of a pole, including costs for labor, materials, and overhead.

Although SCE has incurred capital expenditures of $0.363 million during the period April 3 – December 31, 2003, SCE did not close to plant-in-service as of December 31, 2003 the work orders where these expenditures are recorded. Therefore, no capital-related revenue requirement was recorded in the CEMA as of December 31, 2003. Once the work orders are closed to plant-in-service, SCE will calculate the appropriate revenue requirement that will include depreciation, return, and taxes to be recorded in the CEMA. SCE expects to incur these capital costs during 2004, 2005, and 2006.

In AL 1801-E, SCE provided a detailed discussion of each of the incremental cost categories recorded in its CEMA for the period April 3 – Dec. 31, 2003.

Energy Division staff reviewed the cost information provided by SCE in the advice letter package and supplemental data requests and determined SCE's O&M expenses of $18.080 million, which include reimbursements, as recorded in their bark beetle CEMA for the period April 3 – December 31, 2003 are, for the most part, appropriate and reasonable. As mentioned above, the $456,524 requested for "Tree Side Trims" is being disallowed, lowering the approved expense level (excluding interest) to $17.624 million.

SCE's advice letter addressed the nature of the activities that led to these costs, the necessity of those activities, and the process of evaluating contractor bidders for tree removal and disposal, and its selection process.

SCE included some work papers, supplemented with data requests by Energy Division staff, explaining and summarizing their expenses for the various activities for this program. The advice letter package information demonstrates that SCE has taken a comprehensive and responsible approach to the overall management of this project to meet the desired objectives, and has worked in conjunction with the many local, state, and Federal agencies that are involved with the bark beetle infestation problem. Since inception of its bark beetle tree removal program and project team in April 2003, SCE continually informed Energy Division staff of its activities and communications with the public, local, state, and other agencies involved. In the advice letter, SCE provided a listing of the key milestones during 2003 related to its activities associated with the bark beetle project.

SCE's proposal for rate recovery for the bark beetle CEMA costs should be reduced by $456,524.

In accordance with Resolution E-3824, SCE was authorized to make annual advice letter filings requesting recovery of the costs of removal and incremental support costs recorded during a specified period in its CEMA to allow for rate recovery of the amounts determined to have been reasonably incurred.

After adjusting for the removal of $456,524 for "Tree Side Trims," SCE's request to transfer the balance in the O&M cost sub-account of the bark beetle CEMA to either the Electric Distribution Revenue Adjustment Balancing Account (EDRABA) or the distribution sub-account of the Base Revenue Requirement Balancing Account (BRRBA) is approved. The purpose of the EDRABA is to record the difference between actual base-related distribution revenues and

SCE's authorized base-related distribution revenue requirement until the implementation of SCE's 2003 GRC Phase 1 revenue requirement and ratemaking. When SCE's 2003 GRC Phase 1 is implemented, the EDRABA will be eliminated and the difference between actual distribution revenues and SCE's authorized distribution revenue requirements will be recorded in the distribution sub-account of the BRRBA. SCE's GRC Phase 1 decision D.04-07-022 recently authorized SCE to establish the BRRBA.

SCE's distribution rates will increase slightly as a result of this resolution.

The transfer of the bark beetle CEMA costs to either the EDRABA or distribution sub-account of the BRRBA will result in a slight increase to SCE's distribution rates that are paid for by all customers (i.e., both bundled service and direct access customer.) 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.

As adopted by the CPUC in D.04-01-048 (SCE's April 2003 Energy Resource Recovery Account (ERRA) Forecast proceeding), ERRA applications will be used by SCE to consolidate all CPUC-authorized revenue requirements and unbundled rate levels to recover those revenue requirements. Therefore, the CPUC-approved bark beetle CEMA costs should be included in rate levels when the EDRABA or BRRBA balance is consolidated with other revenue requirement changes in rate levels in order to fully amortize its balance over a 12-month period.

The December 31, 2003 bark beetle CEMA balance of $17.646 million ($18.102 million actually in the CEMA, less the $456,524 for "Tree Side Trims") will continue to accrue interest expense through the effective date of its transfer. Thus, the actual final amount transferred from the CEMA to the EDRABA or BRRBA will reflect recorded interest expense, as appropriate. Average distribution rates will increase by about 0.6% as a result of this resolution; total bundled service rates will increase about 0.2%.

Recovery for bark beetle CEMA costs in future years shall be made by an 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 proceeding. For this particular advice letter, the requested amounts were all expense related (i.e., no capital costs were included), the transactions were all straight forward, and the dollar amounts were relatively small. The Energy Division was able to analyze this advice letter and determine that the requested amounts (less the adjustment for "Tree Side Trims") were reasonably incurred.

However, we are also mindful of ORA's concern, expressed in its protest, that the bark beetle costs should be audited. In future years, this will become increasingly important. In its advice letter, SCE states that it expects to incur substantially greater costs during 2004; included in those costs will be dollars associated with capital additions.[1] 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.

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[1] In its comments to the draft resolution, SCE stated that it will include reasonableness testimony in its 2006 GRC Application that supports the capital-related bark beetle costs.

The 30-day comment period for the draft of this resolution was neither waived nor reduced. Accordingly, this draft resolution was mailed to parties for comments on August 3, 2004. Comments were originally due by August 19th and replies to comments were due August 24th but, upon SCE's request, the CPUC granted an extension to submit comments by August 30th and replies to comments by September 7th. SCE submitted comments on August 30th. No parties filed any replies.

SCE asserts the draft resolution erroneously concludes that SCE has already recovered tree side trimming costs.

SCE states that the $456,524 of expenses recorded in the bark beetle CEMA related to the side trimming of trees are incremental and not SCE's normal tree maintenance expenses that are included in the GRC. Instead, SCE asserts that these trimming activities, more accurately characterized as "delimbing", were implemented in direct response to the extreme fire hazard that exists in bark beetle infested areas. But for the bark beetle infestation, SCE claims it would not have undertaken these activities. Accordingly, they believe these costs should not be disallowed.

This resolution maintains that GRC funding for vegetation management includes expenses for "delimbing" trees.

In its comments, SCE states that the side trim procedure is well in excess of the minimum clearance required by General Order (GO) 95, Rule 35 and Public Resources Code (PRC) 4293. They state that under SCE's normal vegetation management program funded through the GRC, trees are inspected on a routine basis and trimmed, as necessary, to maintain minimum clearances of 18 inches away from high-voltage conductors year round in compliance with GO 95, Rule 35. In State Responsibility Areas, "wilderness areas", SCE states a 10 foot clearance is maintained around the base of poles and a 4 foot clearance from lines in compliance with PRC 4293.

What SCE fails to note is that GO 95, Rule 35 also requires SCE to remove "dead, rotten and diseased trees or portions therefore, that overhang or lean toward and may fall into a span". The side trim procedure, as described by SCE, wherein "[t]he dead or dying tree is trimmed at the level of a high-voltage conductor and up on the side where limbs overhang our power lines", is consistent with

trimming required by GO 95, Rule 35. Because we already authorized vegetation management funding in D.04-07-022 in order to enable SCE to perform necessary tree trimming in compliance with GO 95, Rule 35 requirements, we do not allow funding for it here.

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

SCE believes that the two main reasons identified in the draft resolution for changing the rate recovery procedure for bark beetle related costs from an advice letter to an application are that 1) capital costs will be in future filings making the review process more complex; and 2) as SCE incurs greater costs, an audit will become increasingly important. SCE states that the process should not be changed because the advice letter does not include a determination of the reasonableness of capital additions and SCE would be unfairly harmed by an extended delay in rate recovery.

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

SCE focuses on the fact that the reasonableness of bark beetle related capital costs will be included in its 2006 GRC application, and thus no determination of reasonableness of capital additions will be required through the advice letter process. Although this resolution has been modified to reflect that fact, our concern regarding making a determination of the reasonableness of non-capital related expenditures through an advice letter process remains. We note that San Diego Gas and Electric Company (SDG&E) recently 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).

As for SCE's concern regarding a possible delay associated with an application versus an advice letter, we remind SCE of its option to request that the CPUC handle a future bark beetle application on an expedited basis.

FINDINGS

1. Resolution E-3824, effective April 3, 2003, directed SCE to invoke its CEMA for bark beetle expense accounting.
2. On April 4, 2003, SCE notified the CPUC that it activated its bark beetle CEMA effective April 3, 2003.
3. Resolution E-3824 authorized SCE 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 1801-E, SCE 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 December 31, 2003.
5. The $18.080 million in O&M expenses recorded in SCE's bark beetle CEMA for the period April 3, 2003 through December 31, 2003 shall be reduced by $456,524, the amount spent on "Tree Side Trimming;" the level of expenditures found reasonable is $17.624 million.
6. With the exception of "Tree Side Trimming," SCE's expenses recorded in the bark beetle CEMA are incremental costs that have not been recovered through existing rates.
7. SCE requests transfer of the December 31, 2003 balance in the bark beetle CEMA of $18.102 million (including interest) to the EDRABA or the BRRBA for recovery in rates. The request to transfer the balance is approved, but the amount of the balance shall be reduced by $456,524, resulting in an authorized December 31, 2003 balance of $17.646 million.
8. SCE'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, SCE 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. SCE Advice Letter 1801-E was timely protested by ORA. ORA's protest is resolved as described herein.

THEREFORE IT IS ORDERED THAT:

1. The request of SCE 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 December 31, 2003, as requested in AL 1801-E, and as adjusted above, is approved.
2. The request to transfer the adjusted balance as of December 31, 2003 in the bark beetle CEMA to the EDRABA or the BRRBA for recovery in rates is approved.
3. The request of SCE to implement future bark beetle CEMA-related rate changes by advice letter, as requested in AL 1801-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 September 23, 2004; the following Commissioners voted favorably thereon:

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STEVE LARSON
Executive Director

MICHAEL R. PEEVEY
PRESIDENT
CARL W. WOOD
LORETTA M. LYNCH
GEOFFREY F. BROWN
SUSAN P. KENNEDY
Commissioners