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NOV 7 1997

Decision 97-11-026 November 5, 1997

ORIGINAL

BEFORE THE PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

Application of Pacific Gas and Electric Company to
Identify and Separate Components of Electric Rates,
Effective January 1, 1998. (U-39-E)

Application 96-12-009
(Filed December 6, 1996)

And Related Matters.

Application 96-12-011
(Filed December 6, 1996)

Application 96-12-019
(Filed December 6, 1996)

O P I N I O N

Summary

This decision addresses two petitions to modify Decision (D.) 97-08-056, which resolved matters regarding cost allocation for the electric operations of Pacific Gas and Electric Company (PG&E), Southern California Edison Company (Edison), and San Diego Gas & Electric Company (SDG&E). Both petitions seek changes to the method adopted by the Commission for calculating the competition transition charge (CTC). We herein decline to modify D.97-08-056 in any significant respect with regard to the calculation of the CTC.

The Method of Calculating the CTC Adopted by D.97-08-056

The Commission issued D.97-08-056 on August 7, 1997. The order addressed various issues regarding the appropriate allocation of costs between various utility functions. Among those issues was the method by which the utilities would calculate the CTC. We adopted a method by which the utilities would calculate an average CTC based on rolling weekly averages of Power Exchange (PX) prices and the load profile of the average customer in each rate class.

Edison and PG&E each filed timely applications for rehearing D.97-08-056 on this issue. We denied their applications for rehearing in D.97-09-125, finding that our adopted method for calculating the CTC was consistent with Assembly Bill (AB) 1890 and its stated public policy objectives.

The Petition of PG&E and Others

On September 23, 1997, PG&E, Edison, California Farm Bureau Federation, California Industrial Users, California Large Energy Consumers Association, and California Manufacturers Association (Joint Petitioners) filed a petition to modify D.97-08-056. In the petition to modify, the Joint Petitioners make clear that their proposal did not affect PG&E's and Edison's then-pending applications for rehearing of D.97-08-056.

Joint Petitioners ask the Commission to revise its order regarding the method of calculating the CTC. They contend that using average load profiles for each rate group creates a "loophole" by which customers and their energy service providers can realized savings by simply doing nothing. Under the adopted method, customers with load profiles that are better than others will pay a lower CTC than other customers. This occurs because the customer pays a lower average PX price due to the customer's proportionately greater consumption during low-price periods, and, under the adopted methodology, the customer need not make up the difference in its CTC payment. Instead, the customer would pay what all customers pay on the basis of average load profiles. Joint Petitioners observe that the "savings" that would accrue to such customers would come at the expense of other customers or utility shareholders, who will be forced to pay the transition costs avoided by these customers. This could occur, according to Joint Petitioners, by lengthening the transition period and reducing the likelihood of the utilities' recovering their full authorized transition costs.

Joint Petitioners propose three alternatives to the adopted method:

1. For bundled service and direct access customers with hourly meters electing to remain on frozen tariff rates, the CTC would be calculated hourly;
2. Bundled service and direct access customer with demand of 500 kW or greater who currently have hourly meters would be provided an optional

virtual direct access (VDA) rate pursuant to Section 378. Each customer's CTC would be calculated based on the customer's 1997 load profile;

3. Bundled service and direct access customers with demands below 500kW who do not have historical hourly data would be provided an optional VDA rate. Under this option, the CTC would be calculated based on the average load profile of those customers who subscribe to this option.

Responses to the Petition and Others

California Energy Commission, Center for Energy Efficiency and Renewable Technologies, Environmental Defense Fund, Enron, Mock Energy, Office of Ratepayer Advocates (ORA), Power Resource Managers, LLC, and Southern Retail Trading and Marketing (Joint Respondents) jointly filed in opposition to the Joint Petitioners' petition. Joint Respondents generally argue that the petition to modify is inferior to the existing method and is contrary to AB 1890. Joint Respondents believe the proposed method would punish direct access customers who have not had hourly meters and whose load profiles do not precisely match the load profiles that the utilities would choose. They believe the proposal is flawed for larger customers because historical load profiles may not be representative. They also argue the proposal violates AB 1890 by permitting the CTC to be calculated differently for different classes of customers. Joint Respondents comment that the method adopted by D.97-08-056 provides a reasonable opportunity for the utilities to recover stranded costs, the concern which Joint Respondents believe motivated the proposed modification, and that no methodology will or should guarantee cost recovery.

Discussion

We appreciate the efforts of Joint Petitioners in their attempts to fashion a compromise between the original utility proposals and the one we adopted in D.97-08-056. Nevertheless, we reject the new proposal for several reasons. The development of the existing method for calculating the CTC evolved after an extensive process. It continues to evolve in its implementation detail as we consider the utilities' related tariff filings. Our adopted method is not perfect, as Joint Petitioners observe. We would not expect any proposal to be perfect given the constraints imposed by the

law, the limited information available to market participants and the competing interests which would have to be accommodated. Indeed, Joint Petitioners' proposal would eliminate some of the flaws of the existing method and create new ones, all of which appear to be aptly addressed by Joint Respondents. At this point, substantial changes to the method for calculating the CTC would most likely be impossible to implement prior to January 1, 1998.

We recognize changes to the method adopted in D.97-08-056 may be required as we gain experience with the way restructured electricity markets operate. As we stated in D.97-08-056, we welcome proposals which would incorporate energy price forecasts and longer term averaging of the CTC. We encourage the parties to work together on such proposals. In the meantime, we deny Joint Petitioners' request to modify D.97-08-056.

The Petition of California Energy Commission and Others

On October 1, 1997, the California Energy Commission, the Center for Energy Efficiency and Renewable Technologies, Energy Pacific, Environmental Defense Fund, Green Mountain Energy Resources LLC, ORA, SDG&E, and Southern Energy Retail Trading and Marketing (Joint Filers) filed a petition to modify D.97-08-056, which they refer to as a "joint proposal."

Joint Filers refer to Commission's request in D.97-08-056 for proposals to calculate the CTC using a PX price forecast or longer term averaging of the CTC. Joint Filers state that the active parties to the proceeding met to discuss these matters and did not arrive at a common proposal for the Commission's consideration. Accordingly, Joint Filers propose that this matter be reconsidered in the latter half of 1998, after which time the market will have developed price indices or futures prices that may be used as an unbiased source of forecasting information. Joint Filers propose that the Commission review these matters in the revenue adjustment proceeding established by D.96-12-077.

Joint Filers propose some minor changes to D.97-08-056 prior to implementation of direct access. First, they propose adding language requiring the utilities to submit in

the revenue adjustment proceeding (RAP) proceeding proposals for longer averaging periods and the use of PX price forecasts. They also propose to permit the utilities to calculate the CTC using a one month lag during 1998 in cases where the utility's software does not permit it to do otherwise. Finally, Joint Filers propose a definition of "rate group" so that energy service providers and utilities have the same understanding of the term.

No party objects to the proposals of Joint Filers. We believe they have merit and will adopt them with the exception that we will not commit at this time to the use of a one-month lag beyond 1998. The utilities should modify their software systems to be consistent with D.97-08-056 or subsequent Commission decisions which change the provisions adopted in D.97-08-056. As we stated above, we look forward to proposals that appeal to the various interests at stake and will consider any brought before us in the revenue allocation proceeding, as Joint Filers propose.

Findings of Fact

1. D.97-08-056 adopted a method for calculating the CTC on customers' bills.
2. The modifications to the method for calculating the CTC proposed by Joint Petitioners create uncertainties with regard to the use of individual and imputed load profiles, among other things. Adopting the Joint Petitioners' proposal would probably cause delay in implementing electric restructuring beyond January 1, 1998.
3. Joint Filers seek minor changes to D.97-08-056 to which no party objects and propose a process for considering changes to the adopted method for calculating the CTC.

Conclusions of Law

1. The petition to modify D.97-08-056 filed by Joint Petitioners should be denied.
2. The petition to modify D.97-08-056 filed by Joint Filers should be granted to the extent set forth herein.

O R D E R

IT IS ORDERED that:

1. The petition to modify Decision (D.) 97-08-056 filed by Pacific Gas and Electric Company, Southern California Edison Company, California Farm Bureau Federation, California Industrial Users, California Large Energy Consumers Association, and California Manufacturers Association is denied.

2. The petition to modify D.97-08-056 filed by the California Energy Commission, the Center for Energy Efficiency and Renewable Technologies, Energy Pacific, Environmental Defense Fund, Green Mountain Energy Resources LLC, Office of Ratepayer Advocates, San Diego Gas & Electric Company and Southern Energy Retail Trading and Marketing is granted to the extent set forth in this order.

3. D.97-08-056 is modified on page 40 following the sentence ending "for our consideration no later than October 1, 1997." The additional language shall state, "If the parties are unable to reach consensus within the time allotted, proposals for PX price forecasting and/or longer averaging periods may be submitted in the first Revenue Adjustment Proceeding established by D.96-12-077. After consideration of those proposals, we will require all utilities to implement a consistent methodology."

4. D.97-08-056 is modified on page 40 following the sentence ending "...shall be averaged to obtain a monthly average PX energy cost." The additional language shall state, "If a utility is unable to implement this methodology due to computer software constraints, we will permit it to propose a one-month lag in its PX price calculation, for use only during 1998."

5. D.97-08-056 is modified on page 40 to include a footnote after the sentence which ends "...for utility service customers in that rate group." The footnote shall state, "For consistency with D.97-06-060, we define 'rate group' as the fundamental unit for which marginal cost revenue responsibility and allocated revenue are determined."

This order is effective today.

Dated November 5, 1997, at San Francisco, California.

P. GREGORY CONLON
President
JESSIE J. KNIGHT, JR.
HENRY M. DUQUE
JOSIAH L. NEEPER
RICHARD A. BILAS
Commissioners