

Decision 98-04-019 April 9, 1998

APR 9 1998

**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)

**ORIGINAL**

Application of San Diego Gas & Electric Company (U 902-M) For Authority to Unbundle Rates and Products.

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

In the Matter of the Application of Southern California Edison Company (U 388-E) Proposing the Functional Separation of Cost Components for Energy, Transmission and Ancillary Services, Distribution, Public Benefit Programs and Nuclear Decommissioning, To Be Effective January 1, 1998 In Conformance With D.95-12-036 as Modified by D.96-01-009, the June 21, 1996 Ruling of Assigned Commissioner Duque, D.96-10-074, and Assembly Bill 1890.

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

**O P I N I O N**

On March 9, 1998, Pacific Gas and Electric Company (PG&E) filed a "Motion for Ruling on Recovery of Must-Run Payments." The motion, which is in the nature of a petition to modify a Commission order, asks the Commission to confirm that PG&E is authorized to recover "must-run" payments made to the Independent System Operator (ISO) that are entered into PG&E's Transition Revenue Account (TRA) during the transition period. The ISO is the entity responsible for coordinating all electric transmission in California following the introduction of direct access. Must-run payments are those charges the ISO

collects from transmission owners, such as PG&E, to cover the cost of paying certain electric generators for services required to assure the reliability of the transmission system.

PG&E's motion provides background in support of its request. It states that the Federal Energy Regulatory Commission (FERC) authorized the ISO to recover must-run payments from transmission owners on October 30, 1997. It refers to Decision (D.) 97-12-109, which found that PG&E may enter ISO must-run payments into its TRA. PG&E observes that the language of D.97-12-109 may create some uncertainty because it does not explicitly state that in entering must-run costs into the TRA, PG&E is authorized to recover those costs from ratepayers. PG&E believes D.97-12-109 might be interpreted to mean the costs may only be tracked in the TRA.

PG&E states that it does not request a change to any Commission order, just confirmation that it is authorized to recover must-run payments entered into the TRA pursuant to D.97-12-109.

Southern California Edison Company (Edison) filed a pleading in support of PG&E's filing and suggests the Commission's order apply equally to the three largest investor-owned electric utilities. San Diego Gas & Electric Company (SDG&E) also asks that the Commission reconfirm its previous authorization for all three electric utilities. ORA and Enron do not oppose PG&E's request but emphasize that the Commission has already granted such authority during the transition period, observing that the utilities must receive FERC authority to recover the costs following the transition period.

### Discussion

The TRA, adopted for PG&E in D.97-10-057 and subsequently for Edison by way of resolution, is a tracking mechanism created for the sole purpose of calculating "headroom." Headroom is the term we have used in several

decisions to describe the revenues available during the transition period to offset stranded electric generation investments and other transition costs pursuant to Assembly Bill (AB) 1890 (Stats. 1996, ch. 854). The TRA is not a ratemaking mechanism or a balancing account in the usual sense. It is little more than a calculation or method of preliminarily allocating revenues, or imputed revenues, to various utility functions such as transmission, distribution, and generation.

Although the TRA is not a ratemaking mechanism, it is conceptually a method of "recovering" authorized costs when considered in the broader context of ratemaking during the transition period. Electric utility rates are frozen during the transition period, pursuant to AB 1890. Consistent with D.97-08-056, each electric utility charges each customer a single rate, determined by the level of the total rate in the customer's rate schedule as of June 10, 1996. (See Public Utilities (PU) Code § 368(a).) (The frozen rates for residential and small commercial customers were reduced by 10% on January 1, 1998, as required by AB 1890.) The functional components of the single rate (for example, transmission or distribution, which were unbundled in D.97-08-056) are included on customer bills for illustrative purposes only. (The exception to this is for direct access customers, whose single rates are credited by the amount of the Power Exchange (PX) price.)

PG&E does not need a separate rate for ISO costs in order to "recover" those costs from its ratepayers. Instead, it only requires Commission authority to enter associated costs into its TRA and thereby preliminarily allocate a portion of its revenue stream to the ISO costs. Those costs then reduce the amount of headroom available for recovering transition costs. The Revenue Adjustment Proceeding (RAP) will review the entries in the TRA for each calendar year during the transition period and will authorize recovery of appropriate costs from the revenue collected during that year. Only in that way can PG&E be said

to be authorized to "recover" ISO costs during the transition period. Those costs may not be carried over beyond the transition period.

Following the transition period, a different method for recovering those costs will be needed because the rate freeze will end and PG&E's TRA mechanism will serve no further purpose. As we stated in D.97-12-109, this Commission will have no authority after that time to adopt a rate recovery of ISO costs because the Commission's ratemaking authority will be limited to costs associated with distribution (and certain related costs identified by AB 1890 such as those related to certain public policy programs); FERC will determine transmission rates. ISO costs are not distribution costs and are more appropriately recovered either as generation or transmission costs.

Although SDG&E does not have a TRA, the same general principles apply. The tracking account we suggested SDG&E establish for must-run costs in D.97-12-109 would track must-run payments made by SDG&E as a transmission owner to the ISO for the purpose of calculating (and thereby reducing) headroom during the transition period pursuant to AB 1890. Those costs may not be carried over beyond the transition period. Like Edison and PG&E, following the transition period, SDG&E must recover must-run costs in generation or transmission rates over which we will have no authority.

With this background, we grant PG&E's request with certain understandings. The utilities may enter into the TRA or the tracking account for must-run costs only those payments actually made to the ISO, consistent with FERC orders. Should the FERC order or authorize any refunds of those payments or related rates, each affected electric utility shall credit the TRA or the must run tracking account accordingly and immediately file an advice letter proposing a method to assure retail customers receive the benefits of the refunds.

**Finding of Fact**

The intent of D.97-12-109 was to permit the utilities to recover must-run payments made to the ISO to the extent those payments would be recovered from the revenues collected by each utility during the transition period.

**Conclusion of Law**

The Commission should grant PG&E's request to reconfirm that PG&E, Edison and SDG&E may recover must-run payments to the ISO to the extent that they may include those payments in their respective calculations of headroom, whether by including the amounts in a TRA or other tracking account.

**O R D E R**

**IT IS ORDERED** that:

1. Pacific Gas and Electric Company (PG&E), Southern California Edison Company (Edison), and San Diego Gas & Electric Company (SDG&E) are authorized to recover must-run payments made to the Independent System Operator and authorized by the Federal Energy Regulatory Commission to the extent that these payments are recovered from the revenues collected by each utility during the transition period and as described herein.
2. Nothing in this order authorizes the recovery in Commission-established rates of must-run payments by PG&E, Edison or SDG&E after the end of the transition period as defined in Rulemaking 94-04-031/Investigation 94-04-032 and Assembly Bill 1890.

3. The Motion of PG&E for Ruling on Recovery of Must-Run Payments, filed March 9, 1998, is granted to the extent described in this decision.

This order is effective today.

Dated April 9, 1998, at San Francisco, California.

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