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Decision 98-04-065 April 23, 1998

BEFORE THE PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

**ORIGINAL**

Application of Pacific Gas and Electric Company  
for Approval of Valuation and Categorization of  
Non-Nuclear Generation-Related Sunk Costs  
Eligible for Recovery in the Competition  
Transition Charge.

Application 96-08-001  
(Filed August 1, 1996)

Application of San Diego Gas & Electric  
Company to Identify and Value the Sunk Costs of  
its Non-Nuclear Generation Assets.

Application 96-08-006  
(Filed August 1, 1996)

Application of Southern California Edison  
Company to Identify and Value the Sunk Costs of  
its Non-Nuclear Generation Assets, in  
Compliance with Ordering Paragraph No. 25 of  
D.95-12-063 (as modified by D.96-01-009 and  
D.96-03-022).

Application 96-08-007  
(Filed August 1, 1996)

Application of Pacific Gas and Electric Company  
To Establish the Competition Transition Charge.

Application 96-08-070  
(Filed August 30, 1996)

In the Matter of the Application of Southern  
California Edison Company to estimate its  
Transition Costs as of January 1, 1998 in  
Compliance with Ordering Paragraph 26 of  
D.95-12-063 (as modified by D.96-01-009 and  
D.96-03-022), and related changes.

Application 96-08-071  
(Filed August 30, 1996)

Application of San Diego Gas & Electric  
Company to Estimate Transition Costs and to  
Establish a Transition Cost Balancing Account.

Application 96-08-072  
(Filed August 30, 1996)

## INTERIM OPINION

### Summary

In this decision, we grant, in part, and deny, in part, the petition to modify Decision (D.) 97-11-074, filed jointly by Pacific Gas and Electric Company (PG&E), Southern California Edison Company (Edison), and San Diego Gas & Electric Company (SDG&E) (collectively, petitioners or utilities). We deny petitioners' request to postpone market valuation of materials and supplies inventories and certain fuel inventories. We deny the request to delay filing applications to establish principles to appraise retained assets beyond the extension already granted by the Executive Director. We grant the request to delay the filing of applications for the first Annual Transition Cost Proceeding.

### Background

On February 18, 1998, PG&E, Edison, and SDG&E jointly filed a petition to modify D.97-11-074. Petitioners request to change the timing of market valuation of materials and supplies inventories and certain fuel inventories from December 31, 1997 to the date the Commission or its delegate determines to be the start date of the Independent System Operator, the Power Exchange, and direct access. D.97-11-074 required that these valuations were to be included and reviewed in applications to establish principles for appraising retained assets, which were to be filed on March 2, 1998, pursuant to Ordering Paragraph 17. Concurrent with the petition for modification, petitioners requested a one-month extension of time from the Commission's Executive Director for filing the March 2 applications (also known as the appraisal applications) in order to provide parties an opportunity to comment and the Commission an opportunity to act upon this petition. That request was granted on February 25, and PG&E, Edison, and SDG&E were granted a 60-day extension of time to file the appraisal applications, which are now due on May 1.

The appraisal applications were ordered for several reasons. These applications are to establish the principles necessary to appraise the retained assets of PG&E, Edison, and SDG&E and are to report assessments of the materials and supplies inventories, and for Edison, the fuel inventories. Edison is also to use this application to present a proposal to ensure that ratepayers continue to benefit from the revenue-sharing mechanism for fuel inventory, established in D.94-10-044, a proposal for treatment of fuel-oil pipeline land that is consistent with the revenue sharing mechanism, and its pro rata analysis of land according to its function.

Petitioners now recommend that these applications be filed on June 1, 1998. In addition, Petitioners request that the first annual transition cost application filing date be delayed from June 1, 1998, pursuant to Ordering Paragraph 15, to September 1, 1998. Petitioners are not requesting an extension of time for the applications addressing costs to be considered under Public Utilities Code § 376, which are due on March 31, 1998.

Rule 47(f) provides that responses to petitions for modifications are to be filed within 30 days of the date the petition is filed. In response to the petitioners' request, the assigned administrative law judge (ALJ) granted a shortened response time of 20 days. The Office of Ratepayer Advocates (ORA) and Enron filed timely responses on March 10, 1998.

#### **Petition for Modification**

PG&E, Edison, and SDG&E make three requests in this petition for modification. First, petitioners ask that Ordering Paragraphs 3 and 4 of D.97-11-074 be modified so that materials and supplies inventories and Edison's gas and coal fuel inventories are market valued by the date the Commission or its delegate declares to be the simultaneous start date for direct access, Independent System Operator (ISO), and Power Exchange (PX) operations, rather than by

December 31, 1997. PG&E, Edison, and SDG&E contend that this approach is consistent with the requirements of D.97-12-131, which modified various Commission orders in light of the delay in the implementation of the new market structure.

Ordering Paragraphs 3 and 4 require that the materials and supplies inventories and Edison's gas and coal inventories be market valued as of December 31 or as close to that date as possible. Alternatively, the utilities have the option of deeming the December 31, 1997 book value of the inventories equal to their market value. In asking for an extension of time for market valuing their inventories, the utilities state that this approach is consistent with § 367(c),<sup>1</sup> which requires that all "going forward" costs be recovered from market revenues, with certain specific exceptions. Petitioners contend that there cannot be a determination of new market structures and hence going forward costs until the date the Commission or its delegate declares to be the simultaneous start date of direct access, ISO, and PX operations. Because the reports of such assessments were to be reported in the March 2 applications, the utilities also request that these applications be delayed, in the interests of efficiency of time and resources. Petitioners request that Ordering Paragraph 17 be modified so that these applications will now be due on June 1, 1998, a three-month period equivalent to the delay in the anticipated start of the new market. Since considerable resources have been devoted to implementation of the new market structure over the last few months, the utilities also contend that this delay would allow them more time to carefully consider their plans for market valuation of remaining assets. PG&E does not join in the request to modify the filing date for principles for

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<sup>1</sup> All statutory references are to the Public Utilities Code, unless otherwise noted.

retained generation assets, but does not oppose the request of Edison and SDG&E to change that date.

PG&E, Edison, and SDG&E also request that Ordering Paragraph 15 be modified to change the June 1, 1998 filing date for applications initiating the first Annual Transition Cost Proceedings to September 1, 1998, again a period equivalent to the delay in the start of the new market. Assuming that the new market begins on March 31, as currently envisioned, only one month of complete recorded data would be available prior to the June 1 date. The utilities believe that it will be more efficient and a better use of resources to review the monthly Transition Cost Balancing Account (TCBA) reports and the entries into the Must-Run and Non-Must-Run Memorandum Accounts when more recorded data is available.

#### **Responses**

ORA agrees that it is reasonable to change the dates for market valuing the material and supplies inventories and Edison's gas and coal inventories, because the shift from a regulated to a competitive market will not occur until the new market structure is authorized. ORA also supports deferring the applications to initiate the first Annual Transition Cost Proceedings from June 1, 1998 to September 1, 1998, because more recorded data will be available.

ORA opposes, however, the utilities' wish to further delay filing the applications to appraise retained assets. ORA believes that it is important to proceed with the appraisal of PG&E's, Edison's and SDG&E's retained assets. Market valuation of all utility generation assets will allow the transition to a more competitive market to occur more rapidly. Because several divestiture transactions are nearly complete, there should be market data that will be useful in developing appraisals of retained plants. ORA contends that, while shareholders and ratepayers' interests are aligned when plants are divested, this

is not necessarily the case with appraisal, because shareholders are likely to benefit from a low market valuation of plants that are retained. ORA notes that the utilities have asserted that there is a short window of opportunity in capturing the maximum value of divested plants and maintains that a similar limited time frame exists for ratepayers to maximize the benefits from market valuation of appraised plants. ORA requests that the Commission protect ratepayers by ensuring that the timing of divestiture and appraisal are closely related.

Finally, ORA contends that the applications to identify § 376 costs should be delayed and filed concurrently with the appraisal applications. Ordering Paragraph 18 of D.97-11-074 requires that these applications be filed on March 31. ORA believes that these applications would be most useful if they include an accurate forecast of the total amount of such claims, which would provide a perspective for determining reasonableness of these expenditures. ORA also recommends that recovery of § 376 costs should be allowed only when the utilities have effectively moved towards a competitive market. Since a delay in appraisal of retained assets delays the development of the competitive generation market, ORA recommends a comparable delay in filing the § 376 applications.

Enron opposes the petition in its entirety because petitioners have not demonstrated that the delays they seek are necessary or required by the delays in the commencement of ISO or PX operations. Enron objects strongly to this petition, which it believes is an attempt to broaden the scope of D.97-12-131.

Enron recommends that petitioners should be required to perform the market valuations of materials and supplies and fuel inventories promptly and include these assessments in the appraisal applications, as directed by D.97-11-074. Enron argues that the "bright line" for determining going forward costs is defined by statute and is not impacted by the delay in start-up of the ISO,

PX, and direct access. Enron states that this Commission does not have the authority to change this date. Enron also contends that delaying the appraisal applications beyond the extension granted by the Executive Director would not achieve the stated efficiencies. Enron recommends that the Commission and parties have the opportunity to review this data as early as possible.

Enron also asserts that the Annual Transition Cost Proceeding applications should not be delayed. Enron believes that while there may not be an abundance of recorded data, the June 1 date should be preserved in order to fully review the entries to the TCBA and to address any necessary changes to our approach to transition cost recovery. Enron recognizes that additional data may have to be filed and that updates may be required, but insists that undertaking these new proceedings sooner, rather than later, will be to all parties' advantage.

#### **Discussion**

We do not agree that the market valuation of materials and supplies inventories and Edison's gas and coal inventories should be delayed simply because there is a delay in the start-up of the ISO, the PX and direct access. In D.97-11-074, we stated that it was likely that book value and market value of such inventories would be approximately equal and that an uneconomic component was unlikely. PG&E, Edison, and SDG&E have the option of either market valuing these inventories or deeming book value equal to market value. We are reluctant to delay any restructuring-related activities which are not directly related to the delay in implementation of the ISO and PX. We will not modify Ordering Paragraphs 3 and 4.

The Executive Director properly granted a 60-day extension of time for PG&E, Edison, and SDG&E to file their appraisal applications. These applications are now due on May 1. There is no reason to grant an additional 30-day extension of time. We intend to proceed expeditiously with the appraisal

of retained assets. PG&E, Edison, and SDG&E shall file the applications described in D.97-11-074 and Ordering Paragraph 17 no later than May 1, 1998. Similarly, on March 25, 1998, the Executive Director granted the utilities' request to delay filing the applications to identify the costs which may be recoverable under § 376. This delay addresses ORA's concerns.

We agree that it is reasonable to delay the filing of the first Annual Transition Cost Proceeding. It is more efficient to consider the operation of the TCBA and to review the entries to the Must-Run and Non-Must-Run Memorandum Accounts when there is more data available.

#### **Findings of Fact**

1. Market valuation of materials and supplies inventories and Edison's gas and coal inventories should not be delayed simply because there is a delay in the start-up of the ISO, the PX and direct access.

2. The Executive Director properly granted a 60-day extension of time for PG&E, Edison, and SDG&E to file applications to establish the principles necessary to appraise their retained assets, to report assessments of the materials and supplies inventories, and for Edison, the fuel inventories. Edison is also to use this application to present a proposal to ensure that ratepayers continue to benefit from the revenue-sharing mechanism for fuel inventory, established in D.94-10-044, a proposal for treatment of fuel-oil pipeline land that is consistent with the revenue sharing mechanism, and its pro rata analysis of land according to its function.

3. Because we intend to proceed expeditiously with appraisal of retained assets, there is no reason to grant the utilities an additional 30-day extension of time to file the appraisal applications.



4. It is more efficient to consider the operation of the TCBA and to review the entries to the Must-Run and Non-Must-Run Memorandum Accounts when there is more recorded data available.

#### **Conclusions of Law**

1. It is reasonable to deny the petition to modify D.97-11-074, filed jointly by PG&E, Edison, and SDG&E, with regard to market valuation of materials and supplies inventories and Edison's fuel inventories.

2. It is reasonable to deny the petition to modify D.97-11-074, filed jointly by PG&E, Edison, and SDG&E, with regard to an additional 30-day extension to file the appraisal applications, beyond the 60-day extension granted by the Executive Director.

3. It is reasonable to grant the petition to modify D.97-11-074, filed jointly by PG&E, Edison, and SDG&E, with regard to delaying the date on which the first Annual Transition Cost Proceeding application should be filed.

4. This order should be effective today so that all required actions may be undertaken expeditiously.

#### **INTERIM ORDER**

##### **IT IS ORDERED that:**

1. The petition to modify Decision (D.) 97-11-074 filed jointly on February 18, 1998 by Pacific Gas and Electric Company (PG&E), Southern California Edison Company (Edison), and San Diego Gas & Electric Company (SDG&E) is denied with respect to market valuation of materials and supplies inventories and for Edison, its gas and coal inventories. PG&E, Edison, and SDG&E are directed to undertake these activities in compliance with Ordering Paragraphs 3 and 4 of D.97-11-074.

2. With respect to modifications of the date for filing the appraisal applications, the joint petition for modification is denied, except to the extent such an extension has already been granted by the Executive Director. These applications shall be filed no later than May 1, 1998.

3. With respect to modifications of the date for filing the applications to initiate the Annual Transition Cost Proceedings, the joint petition for modification is granted. These applications are now due no later than September 1, 1998.

4. Ordering Paragraph 15 is modified to read as follows:

"PG&E, Edison, and SDG&E shall file applications no later than September 1, 1998 to request recovery of transition costs in 1999. Annual transition cost proceedings shall be used to establish the reasonableness of PG&E, Edison, and SDG&E in accelerating recovery of transition costs and in estimating market value of their assets subject to market valuation. All costs and revenues related to Power Exchange, ISO, and other pertinent revenues must be justified and shall be subject to an audit."

This order is effective today.

Dated April 23, 1998, at Sacramento, California.

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