

Decision 00-01-052 January 20, 2000

BEFORE THE PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

Rulemaking to Establish Rules For Enforcement
of the Standards of Conduct Governing
Relationships Between Energy Utilities and Their
Affiliates Adopted By the Commission In
Decision 97-12-088.

Rulemaking 98-04-009
(Filed April 9, 1998)

FINAL OPINION ON ADVISORY RULINGS

In Decision (D.) 97-12-088, the Commission adopted rules governing the relationship of California's energy utilities to their affiliates (Affiliate Transaction Rules). The Commission has modified the rules in subsequent decisions, most notably in D.98-08-035. The Commission also asked our staff to prepare proposed rules providing special complaint procedures and special penalties that may be appropriate to improve our enforcement of these new affiliate transactions rules. The Commission created this docket on April 9, 1998 to consider new enforcement rules. The Order Instituting Rulemaking offered proposed rules for comment. Various interested parties filed opening comments on May 12, 1998, and reply comments on June 5, 1998. In D.98-12-075, the Commission added to the Affiliate Transaction Rules specific provisions concerning enforcement of those rules.

In that decision, the Commission considered, but did not adopt, Southern California Edison Company's (Edison) proposal that the Commission create an advisory ruling process under which a utility could receive an advance interpretation as to how the rules should be applied to a new program. Under that proposal, a utility would send a written request to the Chief Administrative

Law Judge for assignment to a designated Administrative Law Judge (ALJ). In Edison's original proposal, the judge would try to issue an advisory ruling within 30 days. The utility would be immune from prosecution for anything it did consistent with the ruling. The Commission did not include an advisory ruling process in its proposed rules, but solicited comments on Edison's suggestion.

In its comments, Edison modified its proposal in several ways. It would have required that the designated ALJ rule within ten days of the filing of a request for ruling. Failure to rule within 10 days would be "deemed approval of the request." A ruling (presumably, a "deemed approval," as well) would be binding in any complaint proceeding subsequently initiated by the Commission or its staff. The ruling would also be given the "highest evidentiary value" in any third-party complaint. Even if the Commission later found the utility's conduct to be inconsistent with the rules, the Commission would be prohibited from imposing a penalty on the utility, so long as it complied with the earlier ruling. Edison also proposed that the utility requesting the ruling pay a fee to cover the Commission's related costs.

Each utility supported the creation of an advisory ruling process in a somewhat different form, as did the Edison Electric Institute and Questar.

The Joint Petitioner Coalition¹ (Coalition) offered the strongest opposition to the use of advisory rulings. First, the Coalition pointed out that in the absence of an actual case or controversy, the Commission would be dealing only with

¹ The Joint Petitioner Coalition includes the California Association of Plumbing Heating and Cooling Contractors, Enron Capital & Trade Resources Corp., New Energy Ventures, the Regional Energy Management Coalition, the School Project for Utility Rate Reduction, the Southern California Utility Power Pool and Imperial Irrigation District, The Utility Reform Network (TURN), and the Utility Consumer Action Network.

hypothetical issues which have been described and characterized only by the utility and not by any party that might be affected by the utility's conduct. Second, the Coalition argued that granting a utility immunity before it takes an action that other parties find objectionable would render the complaint process largely meaningless. Finally, the Coalition argued that this new procedure would impose a substantial burden on the Commission's resources.

In D.98-12-075, the Commission found that there are good reasons to allow some type of advisory ruling process, but declined to adopt any of the various utility proposals, noting that each proposal had significant drawbacks. The Commission observed:

"Edison's proposal does not provide notice to or an opportunity to comment by parties, and defaults to a "yes" answer after a very short amount of time. PG&E provides for comments and notice, but (as with Edison's proposal) would grant immunity to the utility without any Commission decision. SoCal/SDG&E's proposal cures these defects; essentially it is the application process that is currently available and will continue to be available."

The Commission announced that it would take further comments on the use of an Advice Letter approach with the following characteristics:

1. A utility would file an Advice Letter with the Commission's Energy Division following the Tier 4 guidelines in the proposed General Order (GO) 96(a) revisions for the purposes of only seeking clarifications of the affiliates transaction rules. Protests and comments would be allowed per provision of GO 96(a).
2. A Resolution would be required before the Advice Letter would be in effect. The Advice Letter would not be deemed approved without Commission approval of the Resolution.
3. Energy Division could reject the Advice Letter upfront if it is too vague or if it is incomplete.
4. Energy Division could require that a Petition for Modification be filed instead if the Advice Letter called for exemptions to rules, rather than clarifications of the affiliate transaction rules.

5. All Advice Letters requesting advisory rulings must be served on the service list in R.97-04-011 /I.97-04-012 (or their successors).
6. The Commission could change the advisory opinion at any time, through any type of decision, including a Temporary Restraining Order or a Preliminary Injunction.
7. The Resolution would only apply to the exact set of facts and circumstances in the Advice Letter, and only to the utility filing the Advice Letter.
8. The Commission's decision would not be binding on third parties and would not prevent complaints from being filed on the behavior.
9. The utility would be protected from penalties from the time the Advice Letter is approved, but not from prospective remedies.
10. The Advice Letter process would be in effect for one year as an experiment.

Parties were offered an opportunity to provide comments and reply comments on this proposal. The respondent utilities each filed opening comments, as did the Office of Ratepayer Advocates (ORA) and various members of the Coalition.² By letter, TURN expressed support for the position offered by members of the Coalition. Edison, ORA and the Coalition filed reply comments.³

² For the opening comments, California Association of Plumbing Heating and Cooling Contractors, New Energy Ventures, the Regional Energy Management Coalition, and the Utility Consumer Action Network were not available for verification of the position taken. Thus, the opening comments offered by the Coalition only represent the interests of the other members. The reply comments are offered by the Coalition as a whole. For the sake of simplicity, we will refer to the positions taken in both the opening and reply comments as those of the Coalition.

³ Edison's and ORA's motions, dated January 27 and 28, 1999, respectively, to late-file their opening comments are granted.

Should There Be An Advisory Ruling Process At All?

All of the non-utility parties continue to offer vigorous opposition to the institution of any advisory ruling process. ORA argues that the Commission should not create new procedures unless it has a clear idea of the problem that needs to be solved. The implication, as ORA sees it, is that there are numerous ambiguities in the Affiliate Transaction Rules that are susceptible to quick and easy resolution. ORA argues that just the opposite is true: there are few ambiguities, but they are controversial and difficult to resolve. ORA points out that the use of resolutions to establish the applicable law for the interpretation of the Affiliate Transaction Rules would scatter the law in innumerable, hard-to-find places, a result that is inconsistent with the centralization accomplished through the creation of the rules.

ORA sees any advisory ruling process as a vehicle for the utilities to try and try again to get the affiliate rules they want. First, they advocated their positions in response to proposed rules. Then, they filed various petitions to modify the rules. An advisory process would give them a third way to try to change the rules. ORA argues that it is unfair to allow only the utilities to seek rule clarification, while competitors gain no such comfort before undertaking business risks. ORA points out that an advice letter process enables the utilities to avoid adverse rulings by simply withdrawing an advice letter if it looks like the staff would rule against them.

Of the utility proponents of an advisory ruling process, only Edison filed reply comments, which did not directly respond to any of ORA's points. Edison concluded that ORA does not provide a principled basis for its opposition and that ORA has unintentionally conceded the necessity of such a process by stating that the affiliate rules "could not be written to eliminate all ambiguity."

The Coalition argues that an advisory ruling process would "tilt the field" in favor of the utilities, since only the utilities could seek advisory interpretations. In addition, numerous advice letter filings would stretch the resources of potential competitors. Finally, the Coalition cites Commissioner Jessie J. Knight's strong dissent to the portion of D.98-12-075, which endorsed an advisory process "in concept." Edison responds to the "tilted field" argument by suggesting that the field tilts the other way. Utilities face potentially large fines, while competitors are not subject to the rules.

Pacific Gas and Electric Company (PG&E) supports the advice letter approach set forth by the Commission. San Diego Gas & Electric Company and Southern California Gas Company (SDG&E/SoCalGas) not only support the creation of a formal advisory process, they also recommend adopting a somewhat-less-formal General Counsel's Opinion process. The opinion would not be binding on the Commission, but a utility would be immune from punishment if it relied in good faith on a favorable opinion. SDG&E/SoCalGas state that the Federal Energy Regulatory Commission (FERC) uses a similar process.

The Coalition argues that such a process would "be grossly unfair because third parties would have no notice of (and hence no opportunity to respond to) requests by the utilities for 'informal advice' about the rules. It is not even guaranteed that third-parties would ever find out about the 'informal advice' that has been given out by the General Counsel."

ORA responds to this proposal with a series of questions:

"What if the utility disagrees with the General Counsel's opinion? Would utility action inconsistent with such an advisory letter lead to a presumption that the utility was acting in violation of the Rules? Would this be a serious change from the past practice

of Legal Division opinions which carried no presumption with them? Isn't the creation of a presumption that an advisory opinion from the General Counsel correctly interprets the law an improper delegation of Commission decision-making? Why are the utility proposed procedures not symmetric? Why cannot competitors considering entering markets or making investments also request resolutions or advisory opinions from the Commission which would be binding on the utilities? This would only be fair. "

Comments on Specific Portions of the Commission's Proposed Procedure

Despite their basic support for the advice letter approach set forth by the Commission, PG&E and Edison have specific reactions to several of the elements of that approach. ORA also commented on two elements, and several parties responded to PG&E and Edison. We address each of these elements:

"1. A utility would file an Advice Letter with the Commission's Energy Division following the Tier 4 guidelines in the proposed General Order (G.O.) 96(a) revisions for the purpose of only seeking clarifications of the affiliates transaction rules. Protests and comments would be allowed per provision of G.O. 96(a)."

ORA believes that the Commission should not adopt rules based on a proposed General Order, since any comments a party may file will be rendered meaningless by changes in GO 96(a). At a minimum, ORA recommends that the Commission wait until the applicable advice letter rules have been adopted before seeking detailed comments from the parties on these rules.

"3. Energy Division could reject the Advice Letter upfront if it is too vague or if it is incomplete."

Edison proposes eliminating this element as unnecessary, since the Energy Division may reject any advice letter for incompleteness or seek additional information. Edison also objects to allowing the staff to reject a request as too vague. The company would suggest that, if the element is not removed, it should be revised to limit the staff to 10 days within which to request more information

or reject the advice letter and to only allow this discretion where the letter is incomplete. No other party commented on this element.

"4. Energy Division could require that a Petition for Modification be filed instead if the Advice Letter called for exemptions to rules, rather than clarifications of the affiliate transaction rules."

Edison argues that this provision may eviscerate the usefulness of the advisory ruling process because so many issues could be resolved either through advice letter or through modification of a prior decision. In addition, Edison argues that this provision gives the Energy Division too much discretion, which in turn could have a chilling effect on competition.

The Coalition counters that if Edison uses the advisory process as it says it would, such questions will not arise very often, if ever. On the other hand, if the utilities use the process to "seek wholesale changes to the existing rules, the advisory ruling process will become a legal and administrative morass." Therefore, the Coalition argues, the ability of the staff to convert inappropriate requests to petition for modification "is critical to ensure that the advisory ruling process is not abused."

"5. All Advice Letters requesting advisory rulings must be served on the service list in R.97-04-011/I.97-04-012 (or their successors)."

ORA states that service of the advice letters on the service list of the Affiliate Transaction Rules proceeding (or its successors) leaves competitors in a whole series of markets not traditionally subject to Commission regulation "in the dark" since very few of these competitors are either parties to the Affiliate Transaction Rules proceeding or read the Commission calendar.

"6. The Commission can change its opinion at any time, through any type of decision, including a Temporary Restraining Order or a Preliminary Injunction."

Edison states that it agrees that the Commission may do so, with prospective effect, but requests that the Commission only do so after notice and

the right to be heard. PG&E concurs with this statement. Edison incorporates by reference here more detailed comments made to Provision 8 below.

The Coalition objects to the utilities' interpretation, arguing that the utilities now seek to have the resolutions have the full force and effect of Commission decisions, thereby putting an impossible burden on third-parties to respond to all clarification requests by the utilities.

"7. The Resolution would only apply to the utility's specific request and circumstances as proposed in the Advice Letter, and only to the utility filing the Advice Letter."

In order to promote efficiency, PG&E believes each clarification should apply to all utilities, rather than just the utility submitting the Advice Letter. PG&E reasons that since the Affiliate Transaction Rules have general application, so too should the clarifications made by the Advice Letters.

ORA responds that PG&E's proposal would constitute a major increase in the burden imposed on competitors. For example, a competitor of a Sempra affiliate would have to monitor all of PG&E's advice letter requests, as well as Sempra's requests. The Coalition states that by making this proposal, PG&E wants the additional flexibility of using the advice letter process without the procedural protections afforded all parties by the petition for modification process. The Coalition states that D.98-12-075 correctly recognizes that if PG&E wants to make changes to the rules that affect all utilities, it should file a petition for modification.

"8. The Commission's decision would not be binding on third parties and would not prevent complaints from being filed on the utility's behavior."

Edison states that it concurs with the first part of this provision only to the extent to which it duplicates Provision 7, i.e., the Commission's rulings regarding one utility's advisory ruling Advice Letters should not be binding on other utilities. However, Edison believes that the Commission's resolutions must be

given strong weight in pending or subsequent proceedings, so the utility will have the expectation that it will not need to reargue the identical set of facts in a subsequent complaint. This is so because the advisory ruling advice letter process, according to Edison, will require significant time and effort on the part of the Commission and all participating parties.

Edison argues that the advice letter process should increase other parties' burden of proof in complaints regarding the specific items addressed by the resolution. Specifically, Edison recommends that complainants be required to demonstrate that:

1. Circumstances have changed substantially enough since the time of the resolution that Commission reconsideration is merited; or
2. The subject utility has not followed the Commission's direction as propounded in the relevant advisory resolution.

PG&E states that while compliance with a Commission resolution may not insulate a utility from a third party, it is difficult for PG&E to envision what type of complaint or remedy would be available to the third party, since the utility would be acting in compliance with a Commission decision.

The Coalition disagrees with PG&E and Edison. According to the Coalition, advisory rulings are not meant to be the Commission's final word on how a given rule should be interpreted. For instance, third parties may bring complaints and the Commission may find that the utility's conduct violated the Affiliate Transaction Rules, notwithstanding an advice letter ruling to the contrary. The Coalition argues that in those situations, the Commission may impose prospective remedies, citing to principle 9 below.

The Coalition also disagrees with Edison's position that persons bringing subsequent complaints for a violation of the Affiliate Transaction Rule which has been addressed by an advice letter should have a heightened burden of proof. The Coalition explains that the advisory ruling process is intended to reduce the

regulatory risk that conduct not specifically addressed by the Affiliate Transaction Rules will be penalized, and not as a means to relitigate or reinterpret the rules adopted in D.97-12-088. According to the Coalition, Edison's proposal would elevate the advisory rulings to the level of Commission decisions modifying the rules. Further, the Coalition argues that it is unfair to third parties to compel them to respond to all advisory rulings and engage in an endless regulatory debate as to how the rules should be interpreted.

"9. The utility would be protected from penalties from the time the Advice Letter is approved through a resolution, but not from prospective remedies."

Edison states that it interprets "prospective remedies" to refer to the utility's potential liability for conduct occurring after the Commission withdraws a resolution or declares prospectively that conduct previously authorized is so no longer.

PG&E states that once the resolution is approved, the utility should have the right to rely on the Commission's clarification. PG&E suggests that this provision should be changed to provide that the resolution does not protect against retroactive penalties for actions taken before the approval of the resolution or before the date of filing.

The Coalition disagrees with PG&E's reasoning, as discussed above, because according to the Coalition, advisory rulings are not the Commission's final word on how a given Rule should be interpreted. According to the Coalition, advisory rulings "are not meant to 'clarify' the Affiliate Transaction Rules such that subsequent third party complaints are foreclosed, or that all utilities are subject to the 'clarification' provided in the resolution. Advisory resolutions are meant to offer *tentative conclusions* about how a given rule would be interpreted in the event that a specific utility's conduct is subsequently challenged."

"10. The Advice Letter process would be in effect for one year as an experiment."

Edison believes that the time limit is unnecessary and that any modification of the advice letter process can be accomplished by a Petition for Modification. If the Commission determines a trial period is appropriate, Edison recommends that this provision state how and when the Commission will determine whether or not to continue the process.

The Coalition disagrees with Edison, and states that given the infancy of competition and the fact that this Commission has never instituted an advisory ruling process in the past, if the Commission adopts the process, it makes sense to review it after a year and make any necessary changes, including terminating the process.

Discussion

In D.98-12-075, we endorsed the concept of Commission advisory rulings, with appropriate due process, regarding certain aspects of the Affiliate Transaction Rules. However, after examining the details of the various proposals, we no longer believe that it is appropriate to establish a formal advisory ruling process for the Affiliate Transaction Rules.

As all industries become increasingly competitive, the Commission is receiving increased requests for advisory opinions from many different interests. We recently addressed our general position on advisory opinions in D.99-08-018, where we clarified our long-standing reluctance to issue them. Our policy against issuing advisory opinions is not unique to the CPUC or other administrative agencies, but is a policy long-adopted by the courts. (See *Pacific Legal Foundation v. California Coastal Com.* (1982) 33 Cal.3d 158, 170 [ripeness requirement prevents courts from issuing purely advisory opinions].) In a recent decision, we explained and affirmed our policy in this regard:

“We have ‘a longstanding policy against issuing advisory opinions. In order to conserve scarce decision-making resources, [we]

generally '[do] not issue advisory opinions in the absence of a case or controversy.' [Citations omitted.] [We adhere] to this 'rule' unless [we are] presented with 'extraordinary circumstances.' [Citation omitted.]" (D.98-03-038, 1998 Cal PUC LEXIS 74, p. 5.)

Here, we are not presented with alleged "extraordinary circumstances." In fact, we are not even being asked for an advisory opinion on a given issue. Rather, we are being asked to establish an advisory ruling process and, in effect, to determine, in advance of a specific case or controversy, that the interpretation of the Affiliate Transaction Rules is so extraordinary as to merit this unprecedented new procedure. We cannot make this determination.

In D.98-12-075, we endorsed in concept the advisory ruling procedure because our Affiliate Transaction Rules, while detailed, cannot encompass every situation. We reasoned that a utility wishing to enter into a new line of business or to undertake a new affiliate activity faces certain risks in the regulatory arena should the activity later be found to fall outside the scope of our rules, and that we did not intend to put up barriers to partaking in permitted affiliate activities. We stated that the concept of an advisory ruling process would take away some of this regulatory risk for permitted activities.

However, this rationale is not unique to application of the Affiliate Transaction Rules, but can be applied to all rules this Commission promulgates and many policy decisions it renders. Because extraordinary circumstances for establishing this process do not exist, we decline to enact a specific advisory ruling process at this time.

We stress that we believe the Affiliate Transaction Rules are clear, and the Commission already has procedures in place for the utilities (or other parties) to seek clarifications to the Affiliate Transaction Rules when necessary. Indeed, the utilities subject to the rules have filed many Petitions for Modifications to the rules since their recent enactment. Furthermore, the utilities are filing advice

letters containing their plans for compliance with the rules, and the Commission has the forum to clarify potential ambiguities in interpretation at this time.

Finally, D.97-12-088 stated that the Commission plans to review the Affiliate Transaction Rules by means of an appropriate procedural vehicle (i.e., an Order Instituting Rulemaking, etc.) which staff should have drafted for Commission consideration no later than December 31, 2000, and sooner if conditions warrant. A substantial amount of Commission resources have been and continue to be devoted to issues surrounding the Affiliate Transaction Rules.

We are also influenced by Commissioner Knight's rationale in his partial dissent to D.98-12-075:

"Second, I also oppose the modification of today's order to allow the utilities and other parties to comment on establishing an 'advisory ruling' process. In my judgment, as utilities and their affiliates venture into competitive service offerings, they must be weaned from the comforting hand of this Commission's oversight. The Commission's role is to set the rules and enforce them. The management of utilities and their affiliates must accept the same level of risk that other competitors face by making choices without the benefit of up front government protection to clarify regulations. In my judgment, the rules are already clear. Furthermore, a process currently exists to petition the Commission for clarification, should it truly be needed, which has worked fine in other instances. There is little need to establish a separate advice letter process which would insulate the utilities and their management from the risk of doing business under these rules, not to mention the potential burden placed on Commission resources in reviewing this certain flood of utility filings. For these reasons, I dissent on this aspect of the order as well." (*Id.*, Commissioner Jessie J. Knight, Jr., Concurring and Dissenting in Part at pp. 1-2.)

The specific comments on the advice letter approach also cause us to reject establishing a formal advisory ruling process at this time. For example, PG&E suggests that once a particular utility requests an advisory resolution on a given issue, the resulting resolution should be applicable to all utilities who have to

comply with the rules. Similarly, Edison requests that once a Commission issues an advisory resolution on a given topic, that complainant's burden of proof in any subsequent complaint case against the utility would be heightened. Requests such as these, which appear to be shifting the forum for interpretation and enforcement of these rules to the advisory letter process rather than to formal Commission decisions, are ill advised.

One reason why the Commission does not favor issuing advisory rulings is because advisory requests by their nature do not present a specific case or controversy. This means that a specific request for an advisory ruling may not provide a clear picture of what is at issue. In order for another party to participate effectively in a request for an advisory ruling, it needs access to adequate information about the request. However, absent specific facts, it may not be possible for an interested party to recognize that it could be affected by the outcome of a particular request. Similarly, the absence of particular facts may blur the boundaries within which the advisory ruling should apply.

Given the parties' comments, we are not convinced that the advisory ruling process would be more efficient than existing procedures to seek clarification of the rules, in instances when clarification is warranted. Existing procedures permit the Commission discretion to issue advisory opinions when extraordinary circumstances so warrant, and thus promote efficiency of Commission and party resources. However, a formal advisory ruling process could dramatically increase the burden on both the parties and the Commission, because once the procedure is formalized, the utility may feel compelled, in an abundance of caution, to ask for an advisory ruling whenever it applied the Affiliate Transaction Rules to its affiliates. For all of the above reasons, we decline to adopt an advisory ruling process as part of the Affiliate Transaction Rules.

Comments on Draft Decision

The draft decision of Commissioner Bilas in this matter was mailed to the parties in accordance with Pub. Util. Code Section 311(g) and Rules 77.1 of the Rules of Practice and Procedure. Edison and ORA filed timely comments to the draft decision. We do not make any changes based on the comments.

Findings of Fact

1. The Commission has a long-standing reluctance to issue advisory opinions unless presented with extraordinary circumstances. The Commission's policy against issuing advisory opinions is not unique to the Commission or other administrative agencies, but is a policy long-adopted by the courts.

2. We are being asked to establish an advisory ruling process, and in effect, to determine, in advance of a specific case or controversy, that interpretation of the Affiliate Transaction Rules is so extraordinary as to merit this unprecedented new procedure.

3. Extraordinary circumstances for establishing this advisory ruling process do not exist.

4. The Affiliate Transaction Rules are clear, and the Commission already has procedures in place for the utilities (or other parties) to seek clarifications to the Affiliate Transaction Rules when necessary.

5. A substantial amount of Commission resources have been and continue to be devoted to issues surrounding the Affiliate Transaction Rules.

6. Requests which shift the forum for interpretation and enforcement of the Affiliate Transaction Rules to the advisory letter process rather than to formal Commission decisions are ill advised.

7. Requests for advisory rulings or opinions do not present a specific case or controversy, and thus may not provide a clear picture of what is at issue.

8. Absent specific facts, it may not be possible for an interested party to recognize that it could be affected by the outcome of a particular request. Similarly, the absence of particular facts may blur the boundaries within which the advisory ruling should apply.

9. We are not convinced that the advisory ruling process would be more efficient than existing procedures to seek clarification of the rules, in situations where clarification is warranted.

Conclusions of Law

1. The Commission should not establish a formal advisory ruling process for the Affiliate Transaction Rules.

2. Edison's and ORA's motions, dated January 27 and 28, 1999, respectively, to late-file their opening comments should be granted.

3. Because there are no more outstanding matters in this proceeding, this proceeding should be closed.

O R D E R

IT IS ORDERED that:

1. The Commission shall not establish a formal advisory ruling process for the Affiliate Transaction Rules.

2. Southern California Edison Company's and the Office of Ratepayer Advocate's motions, dated January 27 and 28, 1999, respectively, to late-file their opening comments should be granted.

3. This proceeding is closed.

This order is effective today.

Dated January 20, 2000, at San Francisco, California.

RICHARD A. BILAS

President

HENRY M. DUQUE

JOSIAH L. NEEPER

CARL W. WOOD

LORETTA M. LYNCH

Commissioners