

Decision 00-03-019 March 3, 2000

**BEFORE THE PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA**

Application of SOUTHERN CALIFORNIA EDISON COMPANY (U 338-E) to Report on the Valuation Process for Certain Generation-Related Assets Pursuant to D.97-11-074.

Application 98-05-014  
(Filed May 1, 1998)

Application of PACIFIC GAS AND ELECTRIC COMPANY to Report Assessments of Inventory Balances and to Address Appraisal of Retained Generation Assets.

Application 98-05-022  
(Filed May 1, 1998)

**O P I N I O N**

**Summary**

This decision orders Pacific Gas and Electric Company (PG&E) and Southern California Edison Company (Edison) to file applications valuing remaining generation and generation-related assets for which no final valuation has been proposed or completed pursuant to Sections 216(h), 367(b), and 377 of the Public Utilities Code. We order the applications recognizing that the ultimate disposition of these assets may still be at issue. The primary purpose of the applications is to establish market values for remaining generation assets in order to determine how they may affect ratepayer liability for transition costs and the timing of the end of the existing rate freeze ordered by Assembly Bill (AB) 1890. PG&E should file its application by April 14, 2000. Edison should file its applications by May 15, 2000.

## **Discussion**

Currently, law requires the Commission to establish procedures for market valuation of generation assets, determine the valuation of those assets, and authorize their disposition. Commission approval pursuant to Section 851 of the Public Utilities Code is required prior to their transfer to any nonutility entity. Under Section 367(b), we are required to value the assets no later than December 31, 2001. The value we establish for the assets is to be used to reduce ratepayers' liability for uneconomic generation assets by way of a credit to the Transition Cost Balancing Account (TCBA). Pursuant to AB 1890 and numerous Commission decisions, the rate freeze ends when the balance in the TCBA is zero or on March 31, 2002, whichever occurs first. The Commission began a preliminary review of methods for establishing market values for the plants in this proceeding.

However, at the request of certain parties, we deferred hearings on the matters at issue. At this point, significant time has passed without the Commission having developed market valuation principles. Because valuation of remaining assets may be controversial, and is crucial to ending the rate freeze according to statutory requirements, we move straight to the valuation process without separately establishing principles for market valuation.

Our decision today is driven by our interest in a timely review of asset values and their impact on achieving an end of the rate freeze. Indeed, delaying the process of establishing a market value for these assets could artificially extend the rate freeze.

Accordingly, we herein direct PG&E and Edison to file applications valuing remaining generation and generation-related assets, a supporting methodology, and proposed ratemaking treatment, to establish a final valuation

pursuant to Sections 216(h), 367(b), and 377. PG&E and Edison should identify in their applications any assets for which final valuation has not yet been completed.<sup>1</sup>

### **Need for Hearing in the Existing Docket**

In the February 1, 1999 Scoping Memo, the Assigned Commissioner determined that hearings were required for issues surrounding market valuation principles. Because we have concluded that we should move directly to setting market values in new applications, without establishing in advance principles for market valuation, we amend the hearing designation to eliminate the requirement for hearings previously established in Resolution ALJ 176-2993 and the scoping memo. We will address the need for hearings and other procedural matters relevant to the new applications at a later date. There being no other matters to consider in these applications, we will close these dockets.

### **Comments on Draft Decision**

The revised draft decision of Administrative Law Judge Patrick in this matter was mailed to the parties in accordance with Section 311(g) of the Public Utilities Code and Rule 77.1 of the Rules of Practice and Procedure. Comments were filed on October 4, 1999, and reply comments were filed on October 12, 1999. A revised draft was mailed on January 26, 2000. Comments were filed on February 15, 2000, by PG&E and Edison, and reply comments were filed by Office of Ratepayer Advocates (ORA) on February 22, 2000.

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<sup>1</sup> PG&E and Edison have filed several applications recently whose purpose is to establish market value for specific assets. The applications ordered herein are not designed to replace the already filed applications but rather to provide a forum for establishing market values of any remaining assets.

In its comments, PG&E states that it has been working diligently on its plans for valuation of its remaining generation-related assets and supports the proposed April 14, 2000 deadline. At that time, PG&E anticipates that it would file an application identifying its remaining generation-related assets and PG&E's proposed process for valuing such assets.<sup>2</sup> PG&E does not intend to retain any of these assets in the utility. PG&E's expectation is that, for most of the remaining assets, it will be in a position to complete their valuation and file compliance reports (e.g., sales agreements) for further Commission review within a few months following submission of the application.

Edison filed comments requesting that the draft decision be modified to change the April 14 deadline to May 15, 2000 to file the valuation applications called for in the draft decision.

Edison states that it has already sold and thereby valued its 12 gas-fired generating stations. Edison also has already filed an application with the Commission to sell and value its interest in Mohave Generating Station (A.99-10-023), an application to retain and value its hydroelectric generating facilities (A.99-12-024), and an application to sell and value its fuel oil pipeline facilities (A.00-01-037). The valuation of several lesser assets (fossil fuel inventories, material and supply inventories, and residual lands located near

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<sup>2</sup> PG&E notes that it does not anticipate addressing in the proposed April 14, 2000, application any claims for transition cost recovery of generation-related "off-site" common and general plant, which the Commission specified in D.99-07-031 (Ordering Paragraph 3) would be addressed later in the transition period or in the next ATCP following market valuation of PG&E's remaining generation assets. While PG&E recognizes that this issue needs to be addressed prior to the end of the rate freeze, it is not yet in a position to determine whether all of its off-site common and general plant can be reassigned to other utility functions or sold following the market valuation of its generation assets.

already-divested plants) has already been fully addressed in this docket.

Consequently all that remains to be considered in future applications are:

(i) Edison's partial interest in Four Corners Generating Station, a coal-fired plant located in New Mexico, of which Edison's interest represents about 754 megawatts; and (ii) Pebbly Beach Generating Station, a 9-megawatt diesel-fired plant located on Santa Catalina Island.<sup>3</sup>

With regard to valuation applications for Four Corners and Pebbly Beach generating stations, Edison cites several complicating factors to support its request for an extension of time. Further, Edison states that rather than provide "interim" valuations by April 14, Edison believes it would be more efficient and not affect the length of the rate freeze to allow it to provide "definitive" valuation applications for Four Corners and Pebbly Beach by May 15, 2000. Edison's request is supported by ORA.

We agree that Edison's request for a later deadline of May 15, 2000, for filing valuation applications for Four Corners and Pebbly Beach should be granted.

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<sup>3</sup> In addition to these two remaining generating stations, there are several other, lesser assets not necessarily located at generating station sites (such as certain equipment used to train or support Edison employees) that may be wholly or partly "generation-related" in nature and thus possibly subject to valuation. Edison is now in the process of identifying any such assets. The valuation of some of these assets may be addressed in the near future in connection with Edison's proposed creation of an operations and maintenance affiliate. See Edison Application.(A.) 99-08-030, pp. 34-40. To the extent that the valuation of any such assets still remains unaddressed, Edison states that it proposes to identify such assets and to address their valuation in an application to be filed no later than June 30, 2000.

### **Finding of Fact**

The timing of remaining generating asset valuation could affect the ability to end the rate freeze as anticipated on AB 1890.

### **Conclusion of Law**

The Commission should order PG&E and Edison to file applications valuing remaining generation and generation-related assets for which no final valuation has been proposed or completed pursuant to Sections 216(h), 367(b), and 377 as set forth herein.

## **O R D E R**

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

1. Pacific Gas and Electric Company shall, no later than April 14, 2000, file an application valuing remaining generation and generation-related assets consistent with Sections 216(h), 367(b), and 377 of the Public Utilities Code as set forth herein.
2. Southern California Edison Company shall, no later than May 15, 2000, file applications valuing remaining generation and generation-related assets consistent with Sections 216(h), 367(b), and 377 of the Public Utilities Code as set forth herein.
3. A hearing is not required in Application (A.) 98-05-014 or A.98-05-022.

A.98-05-014, A.98-05-022 ALJ/BDP/avs

4. A.98-05-014 and A.98-05-022 are closed.

This order is effective today.

Dated March 2, 2000, at San Francisco, California.

RICHARD A. BILAS  
President  
HENRY M. DUQUE  
JOSIAH L. NEEPER  
CARL W. WOOD  
LORETTA M. LYNCH  
Commissioners