Mailed 6/8/2000

Decision 00-06-004 June 8, 2000

BEFORE THE PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

Application of Pacific Gas and Electric Company for Review and Recovery of the Costs and Revenues in the Transition Cost Balancing Account. (U 39 E)	Application 98-09-003 (Filed September 1, 1998)
Application of Southern California Edison Company to Review and Recovery Transition Cost Balancing Account Entries from January 1, 1998 through June 30, 1998 and Various Generation-Related Memorandum Account Entries.	Application 98-09-008 (Filed September 1, 1998)
Application of San Diego Gas & Electric Company in the Annual Transition Cost Proceeding Regarding the Transition Cost Balancing Account (TCBA).	Application 98-09-009 (Filed September 1, 1998)

(See Decision 00-02-048 for appearances.)

OPINION REGARDING ESTABLISHMENT OF NEW ACCOUNT

Summary

In this decision, we adopt the Generation Asset Balancing Account (GABA) as the corresponding debit entry to the credit ordered in Decision (D.) 00-02-048.[1]

Background

In D.00-02-048, dated February 17, 2000, we determined that Pacific Gas and Electric Company (PG&E) and Southern California Edison Company (Edison) are required to credit their respective Transition Cost Balancing Accounts (TCBA) for the aggregate net book value of their remaining non-nuclear generation assets, as stated in Ordering Paragraph 6:

> PG&E and Edison shall credit the TCBA appropriately for estimated market value on an aggregate basis and for not less than net book value for non-nuclear assets, including the land surrounding such assets and Helms pumped storage plant. Assets jointly owned with other utilities shall be excluded from this approach. These credits shall be reflected in the monthly TCBA reports and Annual ATCP reports. PG&E and Edison shall include a list of all assets over $500,000 in the first TCBA report in which these changes are implemented.

As described in the Assigned Commissioner's Ruling (ACR) issued on March 2, 2000, there is no corresponding debit to this credit entry. The proposed decision anticipated establishing a new account, the Estimated Gain on Asset

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[1] PG&E and Edison have filed timely applications for rehearing. Nothing in this decision prejudges our findings regarding those applications for rehearing.

Disposition Account to track the estimated gain and to true it up after final market valuation, if necessary. In comments to the proposed decision, PG&E and Edison expressed concerns with this account. Edison stated that the Commission must articulate its jurisdiction to accomplish this ratemaking and that all parties should have the opportunity to raise objections through judicial review before the Commission proceeds. PG&E contended that using estimated market value to end the rate freeze is inconsistent with D.97-10-057, in which the Commission stated that the end of the rate freeze occurs on the date the utility has recovered authorized costs for generation-related assets and obligations.

In acknowledging these concerns, D.00-02-048 stated:

> The proposed decision called for the establishment of a new account, the Estimated Gain on Asset Disposition Account. PG&E and Edison are convinced that allowing a true-up when estimated market value is greater than actual market value will violate § 368(a) and the principles established in D.99-10-057. We are persuaded that crediting the TCBA for the aggregate net book value of the remaining generation non-nuclear assets is an extremely conservative approach and remedies these concerns. D.99-10-057 established ratepayer refund accounts for overcollections that occur when CTC collection extends beyond the point when generation-related transition costs are recovered. Accordingly, we do not establish this new account.
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> PG&E argues that establishing the Estimated Gain on Asset Disposition Account would establish a generation-related regulatory asset that, in turn, must be recovered prior to the end of the rate freeze. PG&E argues that absent a legally sustainable true-up, PG&E would have to take an immediate write-off against earnings as a result of the assigned estimated value. PG&E further contends that such a result would lead to a "loss of the opportunity to collect these uneconomic costs through CTC during the transition period and would violate Sections 330(s) and (t), as well as the Taking Clause of the United States and California Constitutions."

> We do not agree with PG&E's analysis, but in any event, PG&E's arguments are moot, because we are not establishing the Estimated Gain on Asset Disposition Account. The Commission has the discretion to manage such balancing accounts such as the TCBA in a manner that avoids huge over-collections or under-collections of revenues, consistent with the guidelines established in D.97-06-060 and clarified in D.97-11-074 and D.97-12-039. Crediting the TCBA for the aggregate net book value of remaining non-nuclear generating assets is a simple accounting procedure that manages the netting procedure called for in § 367(b) during the transition period, rather than waiting for the conclusion of the transition period. (*Id.*, mimeo., at pp. 38-39.)

In recognizing these concerns, however, the Commission inadvertently did not establish a corresponding debit to the TCBA credit. The ACR proposed that the Commission establish the Generation Asset Memorandum Account to record this debit.

Procedural History

The ACR directed parties to comment on whether this memorandum account should earn the reduced transition cost rate of return or the 90-day commercial paper interest rate and proposed that no ratemaking treatment would be established until PG&E and Edison end their respective rate freezes. PG&E, Edison, the Office of Ratepayer Advocates (ORA), and Enron Corporation (Enron) filed timely comments on this issue.

Summary of Parties' Positions

Edison states that it is critical that the Commission establish this account in order to avoid an unintended impact on earnings. Edison proposes that this account be established as a balancing account (the Generation Asset Balancing Account, or GABA) in order to avoid problems associated with limits for short-term borrowing purposes. Edison explains that Pub. Util. Code § 832(c)[2] provides that utilities may issue short-term obligations up to 5% of the par value of other securities then outstanding. This authority was extended by D.99-06-046. Edison now has the necessary flexibility to increase short-term general purpose borrowings in order to support ongoing variations in its cash flows, to meet large dollar obligations (e.g., tax payments and payments to qualifying facilities (QFs), or to avoid issuing long-term securities when the market conditions are not attractive. In D.87-09-050 and D.89-08-023, the Commission authorized Edison to issue special purpose obligations to finance the amounts reflected in balancing accounts. Edison states that the amounts in the TCBA are financed with short-term debt under this authority.

Edison contends that when it credits the estimated value of its non-nuclear generation assets to the TCBA, the under-collection that must be financed will be reduced. At the same time, however, Edison will be required to finance a proportionate amount in the new debit account. Edison is concerned that the Commission will not allow it to finance this amount pursuant to the balancing account financing decisions, but would have to use general purpose borrowing authority. In turn, this requirement would make it difficult for Edison to comply with the requirement to bring down the aggregate amount of short term general purpose borrowings once each year to no more than 5% of the par value of other securities then outstanding.

Edison also recommends that the new account earn the 90-day commercial paper interest rate (5.87% as of March 2000). This rate corresponds to the interest rate applied to the balance in the TCBA and thus keeps both ratepayers and

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[2] All statutory references are to the Pub. Util. Code unless otherwise stated.

shareholders whole. Edison urges that we establish ratemaking procedures at this time and recommends that the balance in this account be zeroed out at the time of final market valuation. The remaining balance in the account, positive or negative, including accumulated interest, would be transferred to the TCBA and the GABA would be closed. Because the date when the rate freeze ends occurs on the date each utility has recovered authorized costs for generation-related assets and obligations, Edison believes the balance in the GABA must be transferred to the TCBA when final market valuation occurs. This transaction would be reviewed in subsequent Annual Transition Cost Proceedings (ATCP), Edison posits, and would reduce the possibility that any balance would remain in the account after the date when the rate freeze ends.

PG&E basically agrees with Edison, but suggests that a weighted average interest rate be applied to the GABA. PG&E also requests a finding that the GABA balance is a transition cost that is fully recoverable under § 368 prior to the rate freeze ending. PG&E states that to the extent that the amounts booked to the new account are used to manage the TCBA under-collection, the 90-day commercial paper rate should apply. To the extent that amounts booked to the new account are used to accelerate transition cost recovery, the reduced rate of return on those costs should apply, according to PG&E.

ORA generally agrees that the accounting approach proposed by the ACR is reasonable[3] and recommends that the 90-day commercial paper rate be applied to this account. ORA is also concerned that transfers to the TCBA of debit

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[3] ORA prefers that the market value of PG&E's hydroelectric assets be credited to the TCBA, including authorized depreciation and a return equal to the reduced transition cost rate of return. This motion has been made in A.99-09-053.

amounts in the GABA could lead to the utilities collecting more stranded costs than is allowed under § 367.

Enron agrees that the account should be created, but questions whether transfers to the TCBA of debit amounts in the GABA are reasonable, both on a legal and policy basis. Enron is concerned that approving such a transaction would lead to recovery of economic generation costs, a situation that D.00-02-048 was trying to ameliorate. Enron maintains that PG&E'S proposal to use a weighted average interest rate for the new account is appropriate only if the estimated credit to the TCBA is used to accelerate the end of the rate freeze. Enron recommends that both Edison and PG&E apply the same interest rate to the new account.

Discussion

We agree with the approach proposed by the assigned Commissioner in the ACR. It is, of course, reasonable to correct the inadvertent omission of the corresponding debit entry to the credit required by D.00-02-048. In that decision, we ordered PG&E and Edison to credit the TCBA for the aggregate net book value of remaining non-nuclear generating assets. It was not our intention to require PG&E and Edison to debit earnings. We are persuaded that the new account should be established as a balancing account in order to avoid problems associated with limits for short-term borrowing purposes. Therefore, we will adopt the GABA to record the corresponding debit to the credit ordered in D.00-02-048.

The GABA should earn the 90-day commercial paper rate. The TCBA itself earns this interest rate (on both over-and under-collections). We agree with Edison that applying the same interest rate to both accounts will ensure that shareholders and ratepayers are made whole, as we explain in further detail below. Using the short-term commercial interest rate is also consistent with our findings in D.00-03-058, which provided that any refunds stemming from collection of the competition transition charge (CTC) after the rate freeze ends should accrue interest equal to the short-term commercial paper interest rate. We decline to adopt PG&E's proposed weighted average interest rate approach. This methodology is unnecessarily complicated. We agree with Enron that both Edison and PG&E should apply the same interest rate to the GABA.

We agree with both Edison and PG&E that the balance remaining in the GABA should be zeroed out at the time of final market valuation. This approach is consistent with our determinations in D.99-10-057 that, if the rate freeze terminates prior to the statutory deadline, the rate freeze will end on the date when each utility has recovered authorized costs and obligations, as described in § 367. In establishing the GABA and the associated ratemaking treatment, we avoid large under- and over-collections in the TCBA and manage the netting procedure as directed by § 367(b).

This approach is consistent with § 367 and does not allow for additional, unauthorized stranded cost recovery. A few simple accounting examples (excluding any accrued interest, tax impacts, and amortization) will help to explain this concept.[4]

[4] See the attachment for a more detailed example. These examples are illustrative only and are not meant to be determinative of the accounting required for purposes of ratemaking and Generally Accepted Accounting Principles (GAAP).

Scenario A:

1. Assume that net book value of the plant is $2 million and estimated market value (at aggregate net book value) is $10 million. The TCBA is credited for estimated market value less net book value, or $8 million and the GABA is debited for $8 million.

2. Next, assume that final market value is $15 million and assets are sold for cash. Because of accrued depreciation, the net book value is now $1.5 million. The net gain is $13.5 million. The GABA is credited for $13.5 million and the cash account is debited for $13.5 million. This leaves a $5.5 million credit balance in the GABA.

3. In order to zero out this account, the GABA is debited for $5.5 million and the TCBA is credited for $5.5 million.

Thus, ratepayers benefit because the aggregate net book value was credited to the TCBA in response to D.00-02-048. Ratepayers benefit further from final market valuation when the GABA is zeroed out and the difference between aggregate net book value and final market valuation is credited to the TCBA.

Scenario B:

1. Again, assume that net book value is $2 million estimated market value (at aggregate net book value) is $10 million. The TCBA is credited for $8 million and the GABA is debited for $8 million.

2. Now assume that final market valuation is $5 million (i.e., less than aggregate net book value) and assets are sold for cash. The net book value is $1.5 million. The GABA is credited for $3.5 million and the cash account is debited for $3.5 million. This leaves a $4.5 million debit balance in the GABA.

3. In order to zero out this account, the GABA is credited for $4.5 million and the TCBA is debited for $4.5 million.

Under this scenario, ratepayers received an early benefit because the aggregate net book value of the assets was credited to the TCBA in response to D.00-02-048. However, because final market value is, under this hypothetical, less than the amount credited to the TCBA (i.e., less than aggregate net book value), PG&E and Edison must be made whole. Under this approach, PG&E and Edison would not be at risk because the remaining debit in the GABA account is appropriately charged to the TCBA. Since the TCBA and GABA earn the same interest rate, both ratepayers and shareholders are made whole. We do not expect that "Scenario B" will be the outcome of final market valuation for either PG&E or Edison, but this approach allows for this possibility and ensures that both ratepayers and shareholders are protected. We will address the impact of this accounting on the end of the rate freeze at the appropriate time and in the appropriate proceeding.

The Executive Director appropriately granted Edison and PG&E extensions of time to comply with D.00-02-048. Now that the GABA is established, we direct Edison and PG&E to comply with our orders in that decision.

The draft decision of Administrative Law Judge Angela Minkin in this matter was mailed to the parties in accordance with § 311(g)(1) and Rule 77.7 of the Rules of Practice and Procedure.

Comments on Draft Decision

PG&E, Edison, Enron, the Western Power Trading Forum (WPTF), and the Alliance for Retail Markets (ARM) filed timely comments on the draft decision.[5]

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[5] WPTF and ARM have moved to intervene in this proceeding. Both entities state that they do not wish to broaden the scope of the proceeding, but wish to comment on the proposed accounting treatment. Although they do not state their interest in this proceeding, both WPTF and ARM have participated extensively in A.99-01-016 et al., the post-rate freeze proceedings. Edison objects to their participation. However, both WPTF and ARM have an interest in how various accounting treatments may impact the

Footnote continued on next page

Enron and Edison filed timely reply comments. We have incorporated comments that provided technical corrections and factual clarifications, as appropriate.

Findings of Fact

1. Pursuant to D.00-02-048, PG&E and Edison are required to credit their respective TCBAs for the estimated market value on an aggregate basis and for not less than the aggregate net book value of their remaining non-nuclear generation assets.

2. In recognizing the concerns expressed by parties, the Commission inadvertently did not establish the corresponding debit to this credit and did not intend that these amounts be charged to earnings.

3. In order to correct this inadvertent error, PG&E and Edison should establish a GABA to record this debit.

4. This account should be established as a balancing account to avoid problems associated with limits for short-term borrowing purposes.

5. The GABA should earn the 90-day short-term commercial paper interest rate.

6. The balance remaining in the GABA should be zeroed out at the time of final market valuation. This approach is consistent with § 367 and does not allow for additional or unauthorized stranded cost recovery, as demonstrated by the simple accounting examples described herein.

7. If final market valuation is greater than the aggregate credit, ratepayers benefit because of the early credit to the TCBA and benefit further from final

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end of the rate freeze. Although we do not address this issue here, it is reasonable to allow this intervention. Both motions are granted.

market valuation when the GABA is zeroed out and the difference is credited to the TCBA.

8. If final market valuation is less than the aggregate credit, ratepayers benefit because of the early credit to the TCBA, but Edison and PG&E are not at risk since the remaining debit in the GABA is appropriately charged to the TCBA.

9. Since the TCBA and the GABA earn the same interest rate, both ratepayers and shareholders are made whole.

Conclusions of Law

1. It is reasonable to establish the GABA as a balancing account in order to avoid problems with short-term borrowing limits and to facilitate the ratemaking described herein.

2. It is reasonable to apply the 90-day commercial paper interest rate to the GABA because it also applies to the TCBA and is consistent with D.00-03-058. PG&E and Edison should apply the same interest rate to the GABA.

3. It is reasonable to adopt the ratemaking approach described herein, as this approach is consistent with our determinations in D.99-10-057 and ensures that both ratepayers and shareholders are protected. The balance in the GABA should be zeroed out at the time of final market valuation, whether positive and an additional credit is recorded in the TCBA or negative, and an additional debit is recorded in the TCBA.

4. Now that the GABA is established, Edison and PG&E should comply with our orders in D.00-02-048.

5. This decision should be effective today in order to allow Edison and PG&E to establish the GABA expeditiously.

ORDER

IT IS ORDERED that:

1. Within 10 days of the effective date of this decision, Pacific Gas and Electric Company (PG&E) and Southern California Edison Company (Edison) shall file compliance advice letters to establish the Generation Asset Balancing Account (GABA), as described herein. These advice letters shall become effective five days after filing.

2. The GABA shall earn the 90-day commercial paper interest rate.

3. The balance in the GABA shall be zeroed out at the time of final market valuation, as described herein.

4. Within 15 days of the effective date of this decision, Edison and PG&E shall comply with all ordering paragraphs of Decision 00-02-048.

5. This order is effective today.

Dated June 8, 2000, at San Francisco, California.

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

ATTACHMENT

A SIMPLE ILLUSTRATION OF THE RECOMMENDED APPROACH FOR ESTIMATEC MARKET VALUE ACCOUNTING

Accounting Entries for Estimated Market Value of A Generation Plant Asset

Assume that a plant has a net book value of $120,000 at January 1, 2000 with a 10 year life, its economic depreciation is $1,000.00 a month. Assume also that its estimated market value after six months of operation is $200,000. What accounting entries are recommended?

		Interim Gain or Credit to the TCBA Calculation:	
Net Book value at 1//2000	$120,000	Estimated Market Value	$200,000
Less Accrued Depreciation	6,000	Less Net book value	114,000
Net Book value at 6/30/2000	$114,000	Net Credit to TCBA	$86,000

A corresponding debit amount of $86,000 is recorded in a two way balancing account titled Generation Asset Balancing Account (GABA). Interest is accrued at 3-month commercial paper rate.

Final Market Valuation

Assume the plant's final market value at the end of 2001 is either $180,000 or $240,000. What accounting entries should be made at this time?

Beginning Net Book Value	$120,000
Less: Accumulated Depreciation	24,000
Net Book value	96,000

Market Valuation -$180,000	
Final Market Value	$180,000
Less: Net book Value	96,000
Net Gain	$84,000

Market Valuation - $240,000	
Final Market Value	$240,000
Less:Net Book Value	96,000
Net Gain	$144,000

Credit to Generation Asset Balancing Account Based on Final Market Valuatior

	$180,000 Final Market Valuation	$240,000 Final Market Valuation
Net Gain After Market Vaulation	$84,000	$144,000
Less:Recognized Depr.	18,000	18,000
Net Gain	$66,000	$126,000

Generation Asset Balancing Account Balances at the end of 2001

Debit Beginning Balance	$ 86,000	$ 86,000
Less: Final Gain	66,000	126,000
Debit (Credit) Transfer to TCBA	$ 20,000	$ (40,000)

(END OF ATTACHMENT)