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Decision 99-06-063 June 10, 1999

BEFORE THE PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

Application of Pacific Gas and Electric Company To Identify Cost Savings for Revenue Cycle Services Provided by Other Entities and to Propose Credits for End-Use Customers in Such Circumstances for Implementation No Later Than January 1, 1999.	Application 97-11-004 (Filed November 3, 1997)
Application of Southern California Edison Company To Identify Cost Savings for Revenue Cycle Services Provided by Other Entities and to Propose Credits for End-Use Customers in Such Circumstances for Implementation No Later Than January 1, 1999.	Application 97-11-011 (Filed November 3, 1997)
Application of San Diego Gas & Electric Company To Identify Cost Savings for Revenue Cycle Services Provided by Other Entities and to Propose Credits for End-Use Customers in Such Circumstances for Implementation No Later Than January 1, 1999.	Application 97-12-012 (Filed December 4, 1997)

ORDER GRANTING LIMITED REHEARING TO MODIFY DECISION (D.) 98-09-070 BY DELETING UNNECESSARY LANGUAGE AND CORRECTING TYPOGRAPHICAL ERRORS, AND DENYING REHEARING OF THE DECISION, AS MODIFIED

I. INTRODUCTION

Decision (D.) 98-09-070 resolved outstanding matters in Phase II of the applications of Pacific Gas and Electric Company ("PG&E"), Southern California Edison Company ("Edison"), and San Diego Gas and Electric Company ("SDG&E") to unbundle portions of metering, billing, and related services, which we have referred to as "revenue cycle services." In this decision, we adopted partial consolidated billing credits for utility distribution companies ("UDCs"), and directed utilities to use credits of partial consolidated billing for full consolidated billing services. (D.98-09-070, pp. 4-14 & 18.) The credits would be based on each utility's short run avoided costs. This methodology for determining the credits was proposed by SDG&E. (D.98-09-070, p. 8.)

In D.98-09-070, we also allowed the UDCs to recover the incremental costs of unbundling revenue cycle services in service charges (or fees) from energy service providers ("ESPs"). However, rather than adopt the billing offsets proposed by PG&E and Edison, we ordered the utilities to propose service fees for billing services in an advice letter filing, and directed the Energy Division to conduct a workshop after the advice letters were filed. (D.98-09-070, p. 16.)

Applications for rehearing of D.98-09-070 were filed by Commonwealth Energy Corporation ("Commonwealth") and jointly by Enron Corp. and New Energy Ventures, LLC. ("Enron/NEV"). In its rehearing application, Commonwealth alleges that D.98-09-070 is legally defective for the following reasons: allowing the utilities to recover service fees is inconsistent with previously stated Commission policy goals for competition; the revenue cycle services cost allocation issue is beyond the scope of the proceeding; using the advice letter process to determine the service fees deprives interested parties of their right to be heard; and the adoption of partial consolidated ESP billing credits

for full consolidated ESP billing services does not reflect true cost savings to the utilities.

Like Commonwealth, Enron/NEV also challenges the advice letter filing mechanism for determining the service fees. In addition, Enron/NEV argues that the Commission erred in its findings that the adopted credits reflect the UDCs' costs and will serve as adequate price signals, and the decision contains unsupported findings and contradictory findings. Enron/NEV further asserts that the Commission erred in its determination that credits based on short run avoided costs are necessary to avoid cost shifting and that the Commission's postponement of long-run marginal cost ("LRMC") credits serves to postpone competition.

Responses were filed by the Office of Ratepayer Advocates ("ORA"), California Department of General Services ("DGS") and PG&E. In its response, DGS supports Enron/NEV's application for rehearing. Although ORA generally supports D.98-09-070, it agrees with Enron/NEV and Commonwealth that "the record in this proceeding would benefit from further examination of non-discretionary service fees to ESPs, the tariff requirements, and associated credits for full consolidated ESP billing." (ORA's Response, pp. 3-4.) In its response, PG&E opposes both rehearing applications.

We have reviewed each and every allegation raised in the applications for rehearing, filed by Commonwealth and Enron/NEV. Except for the issue relating to the ability of ESPs to recover fixed and overhead costs in the prices for related products, as discussed below, we are of the opinion that good cause does not exist for granting rehearing. We further note that D.98-09-070 does contain two typographical errors, which we will correct. One is in Finding of Fact Number 9 on page 27, and the other is on Line 8 on page 26. Otherwise, the rehearing applications are denied.

II. DISCUSSION

A. The Commission's decision to allow UDCs to recover the cost of implementing revenue cycle services billing through service charges from ESPs does not thwart its stated policies to promote competition in the generation market.

In its application for rehearing, Commonwealth asserts that the Commission's determination to allow the UDCs to recover the costs of implementing revenue cycle services unbundling will thwart the entry of ESPs into the revenue cycle services market, and thus, this determination is inconsistent with the Commission's stated goals for competition. (Commonwealth's Application for Rehearing, pp. 4-5.) This assertion lacks merit.

Our determination in D.98-09-070 to permit the UDCs to recover the incremental costs of unbundling revenue cycle services through the service fees to ESPs is not inconsistent with our other previous stated goals to promote competition. In promoting competition, the Commission's policy has never been to achieve this goal at all costs. It is clearly understood that this goal must be balanced with other competing objectives. As we stated:

> "The process of establishing pricing policies as part of an effort to unbundle utility services and thereby promote competition is not a new exercise. We have addressed it for many utility services over the years. Here, as in previous cases, we must balance competing objectives to promote competition, provide the utilities with a reasonable opportunity to recover costs and protect customers from unfair pricing." (D.98-09-070, p. 10.)

We have taken this balancing of competing objectives approach since we commenced our proceedings on the restructuring of the State's electric services industry. (See generally, Re Proposed Policies Governing Restructuring California's Electric Services Industry and Reforming Regulation ["Preferred Policy Decision) [D.95-12-063, as modified by D.96-01-009] (1995) 64

Cal.P.U.C.2d 1, 57-69, and 64 Cal.P.U.C.2d 228, especially with respect to providing utilities with transition costs recovery.) Thus, our determination to provide for service fees is consistent with our past policy regarding promoting competition.

Further, assessing service fees is in accord with our thinking that competition in revenue cycle services, including billing, is not an objective in itself. As we stated in Opinion Ordering Separation of Transmission from Distribution Costs and Requesting Comments on Related Items [D.96-10-074, p. 13 (slip op.)] (1996) ___ Cal.P.U.C.2d ___: "[W]e are not proposing competition in metering and billing as an objective in itself but as a means to achieve effective competition in Direct Access." (See also, D.98-09-070, p. 2.)

B. The issue concerning the service fees was within the scope of the instant proceeding.

In its rehearing application, Commonwealth argues that by permitting the UDCs to recover service fees from ESPs, we have made a determination about the cost allocation issue, which D.98-09-070 explicitly stated would be decided elsewhere. (Commonwealth's Application for Rehearing, pp. 5-6.) This argument has no merit.

Commonwealth is simply wrong that we have made a determination about the cost allocation issue, namely to what "extent ESPs, revenue cycle services customers, shareholders or utility ratepayers generally should be liable for the costs of implementing revenue cycle services, with the exception of certain variable costs the utilities may incur in the future." (D.98-09-070, pp. 6-7) In D.98-09-070, we decided only the issue of services fees and not the cost allocation issue. For example, in D.98-09-070, we have not foreclosed the recovery of such costs from others. That is an issue for a future proceeding. (D.98-09-070, pp. 6-7.)

The issue about billing offsets, which resulted in the Commission's determination to allow the UDCs to recover service fees from ESPs, was within the scope of the instant proceeding. As we explained in D.98-09-070, p. 15:

> "Ordering Paragraph 5 of D.97-05-039 directed the utilities to file these applications in order to explore 'the net cost savings resulting when billing, metering, and related services are provided by another entity.' The use of the term 'net' in this context can only mean those cost savings which result after other costs have been removed from the calculation."

Accordingly, the issue regarding service fees was within the scope of the instant proceeding.

C. The use of advice letter filings as a means of determining the service fees was appropriate

Both Commonwealth and Enron/NEV challenge the Commission's use of the advice letter process to implement the service fees for partial and full consolidated ESP billing. We find the arguments raised by rehearing applicants relating to this issue lack merit for the reasons discussed below.

1. Commonwealth's Argument

In its application for rehearing, Commonwealth asserts that the Commission's use of the advice letter process to determine the calculations of the service fees denies is an inappropriate procedure for giving the parties a fair opportunity to be heard on this issue as well as to the "determination of whether the offsets should be adopted at all." Thus, in its rehearing application, Commonwealth is seeking a full hearing on the RCS unbundling implementation cost issues. (Commonwealth's Application for Rehearing, pp. 7-9.)

Commonwealth's assertion is without merit for several reasons. First, it fails to substantiate how the advice letter process itself denies a fair

hearing. In an advice letter process, interested parties have notice of the advice letter filings, and an opportunity to be heard regarding the advice letters by filing protests. (See, e.g., General Order 96-A, Section III.G. and III.H.) Thus, due process is afforded through such notice and opportunity to be heard. (See, e.g., Mathews v. Eldridge (1975) 424 U.S. 319, 348-349; see also generally, Mullane v. Central Hanover B. & T. Co. (1950) 339 U.S. 306, 314; Railroad Com. of Cal. v. Pacific Gas & Electric Co. (1937) 302 U.S. 388, 393.)

Second, D.98-09-070 did not deny interested parties of the notice and opportunity to be heard that is provided for by the advice letter process. In addition, we included in this decision an additional opportunity for the parties to be heard by ordering a workshop to be conducted on the issues related to the service fees for billing services. (D.98-09-070, p. 29 [Ordering Paragraph No. 2].)

Third, we note that Commonwealth offers no citation to any law that would prohibit the Commission from using the advice letter process to determine what the services fees should be. Rather, Commonwealth simply makes broad unsupported allegations, e.g., that the advice letter process permits the "UDCs, in effect, to unilaterally determine fees to be assessed to ESPs through a truncated advice letter process," and merely explains why it believes the advice letters filed by PG&E and Edison in response to Ordering Paragraph 2 are defective. (Commmonwealth's Application for Rehearing, pp. 7-8.) Essentially, in its rehearing, Commonwealth is arguing the merits of the advice letters that the UDCs filed on October 7, 1998 and alleging that we have denied the interested parties due process even before we have considered the advice letter filings and issued a determination, via a resolution, on the matter. Commonwealth has prejudged the Commission's actions without any basis. Any allegations of error as to the Commission's handling of the advice letter filings are matters for a application for

rehearing of the resolution issued on the advice letters,[1] and not in an application for rehearing of D.98-09-070.

Finally, Commonwealth is indirectly claiming that the advice process is not an appropriate process to determine whether the services fees, which they term as "offsets," should be adopted at all. We find no merit to this claim. We have already decided in D.98-09-070 that it was appropriate to allow UDCs to recover the incremental costs of unbundling revenue cycle services through service fees. (D.98-09-070, pp. 14-16.) Recovery of incremental costs through service fees is therefore not an issue for consideration in the advice letter filings.

2. Enron/NEV's Argument

In their rehearing application, Enron/NEV argue that "the advice letter mechanism, and its limitation to consolidated ESP billing, provides an insufficient procedural vehicle for the consideration of what is really at issue – <u>the lack of comparability between the credits . . . and the [service] fees</u>." (Enron/NEV's Application for Rehearing, pp. 6-8, emphasis added.) We question whether Enron/NEV are attempting to change to the scope of the issue that the UDCs were required by D.98-09-070 to address in the advice letter filings, which was the structure of the service fees, since their argument about comparability between credits and fees appears to go more to the issue about whether the UDCs should have been allowed to recover incremental costs for unbundling revenue cycle services through the service fees. This issue was disposed of in D.98-09-070, and the advice letter process ordered in D.98-09-070 was not intended to revisit this issue.

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[1] In Resolution E-3582, issued on January 20, 1999, the Commission acted on the advice letter filings in which the UDCs submitted their proposals for the service fees applicable to ESP offering of consolidated billing. Interestingly, the instant due process issue did not resurface in any application for rehearing of this resolution.

There was only one application for rehearing of Resolution E-3582, and this application is pending. We do not intend by this decision to prejudge or dispose of any of the issues raised in that application for rehearing.

However, we agree that the issue concerning whether fees have been structured to make direct access and customer choice economically infeasible is an important factor in reviewing the service fees proposed by the UDCs in their advice letter filings. But, we note that the advice letter process allows parties to present information about what impact any proposed fees would have on the market for the Commission's consideration in determining the service fees proposed by the UDCs in their advice letter filings.

D. Based on the record the Commission had before it, the Commission did not err in adopting partial consolidated ESP billing credits for full consolidated ESP billing services.

In D.98-09-070, we adopted "SDG&E's method for valuing each revenue cycle services credit," but we "only adopted the credits for partial consolidated ESP billing." For full consolidated billing services, "we direct[ed] the utilities to use the credits of partial consolidated billing." (D.98-09-070, p. 18.)

In its rehearing application, Commonwealth alleges that since the true cost savings are higher for the full consolidated ESP billing, the credit for this billing should have been higher than for the partial consolidated ESP billing. Therefore, it argues that the Commission erred in adopting partial consolidated ESP billing credits for full consolidated ESP billing services. (Commonwealth's Application for Rehearing, p. 9.) We do not agree, as the UDCs through their testimony disputed what the true savings might be for full consolidated ESP billing.

Each of the utilities generally advocated applying the same avoided cost credit methodology for calculating the credit for full ESP consolidated billing as it used for the partial consolidated ESP billing. (See Exhibit 32: Edison's Prepared Testimony on Avoided Cost Credits for Full ESP Consolidated Billing, p. 5; Exhibit 36: Supplemental Testimony of SDG&E, p. 5; Exhibit 42: PG&E

Revenue Cycle Credits for Full ESP Consolidated Billing Testimony, p. 3.) The utilities also raised some additional issues involved in calculating service fees for full consolidated ESP billing. However, they pointed out the difficulties in resolving these issues. For example, they argue that the costs of auditing should be considered in assessing the true savings, but there are uncertainties in calculating these costs. (Exhibit 42, pp. 2-3.) As stated in Edison's testimony: "As [the] cost study demonstrates, [Edison's] start-up costs for implementing full ESP consolidated billing are significant and the resulting avoided cost credits are likely to be small and, in some instances, negative." (Exhibit 32, p. 7.) Also, SDG&E offers testimony that even if the utilities are performing full consolidated billing, there are still some costs that can not be avoided, including those for ensuring "bill accuracy to the satisfaction of the UDC, its customers and other stakeholders." (Exhibit 36, pp. 4-5.) Further, there are calculation uncertainties because there is a question about the scope of participation by ESPs in full consolidated billing, and associated costs for utilities. (Exhibit 32, p. 9 & Exhibit 36, p. 12.)

Although there was a request that we defer the issue about credits for full consolidated ESP billing to another proceeding, we did not. (See Exhibit 32, pp. 9-10.) Rather, we decided to apply the same methodology for calculating the credits for partial consolidated ESP billing to the credits for full consolidated ESP billing, because the UDCs had largely proposed such an approach in their testimony. Based on the uncertainty about the scope of the ESPs' participation in full consolidated billing and the associated costs for the utilities, it was reasonable not to adopt a higher credit. Accordingly, our determination on the credits is fully supported by record evidence.

E. The Commission did not err in its finding that the adopted credits reflect the UDCs' avoided costs, will serve as adequate price signals and will not prevent market entry.

In their application for rehearing, Enron/NEV argue that the Commission is wrong that the adopted credits based on SDG&E's short-run avoided cost methodology will reflect the "UDCs' costs[2] and will serve as adequate price signals. (Enron/NEV's Application for Rehearing, pp. 2-5, citing to D.98-09-070, p. 26.) They further argue that the record does not support the following statement in D.98-09-070, p. 12:

> "[W]e are not convinced that prices must be set at fully-allocated costs in order to assure market entry by competitors. This is because ESPs are likely to be able to recover their fixed and overhead costs in related markets. Accordingly, such firms may be able to recover fixed and overhead costs in the prices for those related products, which is to say they may realize economies of scale in their offering of revenue cycle services."

(Enron/NEV's Application for Rehearing, pp. 3-4.) Also, Enron/NEV assert that leaving "alternative RCS providers to recover their fixed and overhead costs in related markets" run counter to the Commission's determination in D.97-08-56, p. 22, relating to whether competitors will realize the economies of scale or scope which the utilities and recover fixed costs in the generation markets. (Enron/NEV's Application for Rehearing, pp. 5-6.)

[2] We note that there is a typographical error on line 8, page 26 of D.98-09-070. When we referred to "utilities' costs" we meant "utilities' avoided costs." This is consistent with our discussion on pages 7 to 13 relating to the merits of the different methodologies for calculating the credits. Thus, by omitting the word "avoided," we inadvertently made a typographical error. We will modify D.98-09-070 to correct this error.

1. The Commission did not err in determining that the short-run avoided cost methodology will reflect UDCs' avoided costs and serve as adequate price signals.

In D.98-09-070, p. 26, the Commission concluded that the adopted credits, based on SDG&E proposal to base the credits on short-run avoided costs, reasonably reflect the utilities' [avoided] costs and will serve as adequate price signals in revenue cycle services markets for the foreseeable future with the applicable adjustments to recognize changes in market penetration." In their rehearing application, Enron/NEV disputes this conclusion. (Enron/NEV's Application for Rehearing, pp. 2-3.)

Because of our inadvertent omission of the word "avoided" between the word "utilities" and "costs," and our correction in this decision of this typographical error, we need not address the issue that the adopted credits do not reflect utilities' costs. But we do note that there is ample evidentiary support the determination that the credits do reflect the utilities' avoided costs. (See generally, Exhibit 9: Revised Testimony in Support of SDG&E's Net Avoided Cost Methodology for Revenue Cycle Service; R.T. Vol. 9, p. 1115.)[3]

Since the adopted credits do reflect the utilities avoided costs, they send out the appropriate price signals to customers and ESPs. The evidence in the record supports this proposition. (See, e.g., Exhibit 9: Revised Prepared Testimony in Support of SDG&E's Net Avoided Cost Methodology for Revenue Cycle Service, pp. 4-5; Exhibit 38: Phase II Rebuttal Testimony of SDG&E, p. 6; R.T. Vol. 4, pp. 315-316.) Further, we note that several parties offered evidence that the fully allocated methodology might lead to the wrong price signals. For example, if an UDC provided credits that exceed net cost savings, which might happen under the fully allocated methodology, the customer and the ESP might be misled as to the true costs for providing the revenue cycle services. This could

[3] "R.T." is a reference to the Reporter's Transcript.

result in economic inefficiency, such as the ESP making unwise business investments and the customer choosing a less than cost-effective provider. (See Exhibit 38, p. 6; Exhibit 44: PG&E's Revenue Cycle Services Rebuttal Testimony, Phase 2, pp. 1-2 to 1-3.) Accordingly, we did not err when we concluded that the adopted credits, based on SDG&E's net avoided cost methodology, serve as adequate price signals. Our conclusions are supported by the evidentiary record.

2. The language relating to the ability of ESPs to recover their fixed costs and overhead costs in the prices of related products should be deleted from D.98-09-070.

In their application for rehearing, Enron/NEV challenge our statement regarding whether ESP can recover its fixed costs in related markets. We agree that there is a lack of a clear record for this statement. The statement constitutes an assumption or "dicta" rather than a finding of fact, and it is not necessary to our conclusion that "we are not convinced that prices must be set at fully-allocated costs in order to assure market entry by competitors." We will grant a limited rehearing, herein, solely for the purpose of modifying D.98-09-070 to remove this statement and any language referring to it in the decision. With this modification, no further rehearing is necessary.

However, we note that there is evidence in the record to support a finding that the adopted net avoided cost approach will not prevent entry into the market, and thus, we need not adopt the fully-allocated costs to ensure market entry. This finding is supported by testimony, including the following:

> "There are likely to be a number of competitors that can provide the revenue cycle services as an increment to their existing activities, e.g. firms that have established billing systems. These firms have an incentive to enter the market if they can sell at a price higher than their incremental cost, because any revenue in excess of incremental cost contributes to

> their margin. If the competitor's incremental cost is lower than the utility's net avoided cost entry is induced." (Exhibit 33: Edison's Phase II Rebuttal Testimony, p. 12.)

We will modify D.98-09-070 to include a reference to this evidence so as to provide an explanation for our determination that "we are not convinced that prices must be set at fully-allocated costs in order to assure market entry by competitors."

3. D.98-09-070 is not inconsistent with D.97-08-056.

Since we are deleting the language relating to the ability of ESPs to recover fixed costs in related markets, we need not address Enron/NEV's argument that this language is inconsistent with the following Commission statement in Application of Pacific Gas and Electric Company to Identify and Separate Components of Electric Rates, Etc. [D.97-08-056, p. 22 (slip op.)] (1997) ___ Cal.P.U.C.2d __:

> "The utilities' argument that they will be unable to recover these costs in generation markets is not convincing. Their competitors also incur fixed costs. Arguably, competitors' fixed costs are higher per unit of output than that of the utilities because many competitors will not realize the economies of scale or scope which the utilities enjoy."

However, we note that if this language had not been deleted, D.98-09-070 would not be inconsistent with D.97-08-056. The Commission's findings in D.97-08-056 are about generation and not about revenue cycle services, which is the subject of D.98-09-070. These findings are not necessarily applicable to revenue cycle services, because utilities have divested generation, while the UDC will continue to provide billing and metering services, "with fixed costs or common costs associated in providing [them]." (See R.T. Vol. 9, pp. 111-1112; see also, Exhibit 33: Edison's Phase II Rebuttal Testimony, p. 7.)

F. There is no need to revisit the Commission's adoption of the methodology for the credits based on short-run avoided costs.

In their rehearing application, Enron/NEV argue that by adopting a methodology that is based on short-run avoided costs rather than fully allocated costs, the Commission has chosen an ineffective means to prevent cost shifting to the remaining customers or shareholders, and a methodology which results in an inequitable shifting of costs to direct access customers. (Enron/NEV's Application for Rehearing, pp. 2-5.) Enron/NEV are merely rehashing the policy arguments made during Phase 2 of the proceeding, which we considered and rejected. (D.98-09-070, p. 12.) They faii to specify any legal error in their application for rehearing.

Since we have already adopted the short-run avoided cost methodology proposed by SDG&E (based on our goals for promoting competition and balancing competing objectives, including cost-shifting), we see no need to revisit the merits for adopting this methodology over one that was based on fully allocated costs. Accordingly, we deny the request for rehearing on this matter.

G. The Commission's determination to use short-run avoided cost methodology for calculating credits until it revisits this issue for the post-transition period is reasonable.

In D.98-09-070, we adopted a conservative approach to pricing revenue cycle services, based on short-run avoided costs. (D.98-09-070, p. 12.) We also noted the need to modify the costing method to foster competition in the longer term. We declined to make such an adjustment because of the current constraints in our ratemaking approaches due to the prohibition on cost shifting and rate freeze provisions of AB 1890 that are in effect during the transition period. However, we directed the UDCs "to include in their January 15, 1999 applications for post-transition period ratemaking proposals for more complete

revenue cycle services unbundling at rates which approximate those likely to prevail in a sustainable competitive market, specifically, those set at long-run marginal costs or some variation which includes all costs which would be incurred over the long-run to provide the service." (D.98-09-070, p. 13.)[4]

In their rehearing application, Enron/NEV claim that the cost methodology adopted in D.98-09-070 creates inequities for direct access customers, and thus, urge the Commission to provide for long-run marginal cost pricing of credits prior to the end of the rate-freeze. (Enron/NEV's Application for Rehearing, pp. 8-10.) By this claim, Enron/NEV again argue policy rather than setting forth in their rehearing application a specific ground as to why D.98-09-070 is unlawful. (See Pub. Util. Code, §1732.) Moreover, they are merely rearguing a policy position we have already rejected, and we decline to revisit this issue in disposing of their application for rehearing.

III. CONCLUSION

Based on the above discussion, the arguments raised in the applications for rehearing of D.98-09-070, filed by Commonwealth and Enron/NEV, have no merit. Accordingly, their rehearing applications are denied.

THEREFORE, IT IS ORDERED that:

1. D.98-09-070 is modified to correct the following typographical error:

a. The word "avoided" is inserted between the words "utilities" and "costs" on Line 8, page 26.

b. The words "Existing line extension rules is" are replaced with the words, "The proceeding for the existing line extension rules, R.92-03-050, is," in Finding of Fact Number 9 on page 27.

2. A limited rehearing is granted, herein, to modify D.98-09-070 by deleting reference to the ESPs' ability to recover their fixed costs in related markets.

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[4] The issue is the subject of the consolidated proceedings for A.99-03-013, A.99-03-019 and A.99-03-024.

3. D.98-09-070 is modified as follows:

a. The following language is deleted from Lines 13 through 19 on page 26:

> "This is because ESPs are likely to be able to recover their fixed costs in related markets. Accordingly, such firms may be able to recover fixed and overhead cost in the prices for those related products, which is to say that they may realize economies of scope in their offering of revenue cycle services. They will thereby be able to compete by pricing their own revenue cycle services based on avoided costs (or short run marginal costs). This assumption . . . ."

b. The deleted language from Lines 13 through 19 on pages 26 is replaced by the following language:

> "This is because we are convinced that the adopted net avoided cost approach will not prevent entry into the market, and thus, we need not adopt credits based on fully-allocated costs. We agree with Edison's rebuttal testimony that '[t]here are likely to be a number of competitors that can provide the revenue cycle services as an increment to their existing activities, e.g. firms that have established billing systems. These firms have an incentive to enter the market if they can sell at a price higher than their incremental cost, because any revenue in excess of incremental cost contributes to their margin. If the competitor's incremental cost is lower than the utility's net avoided cost entry is induced.' (Exhibit 33: Edison's Phase II Rebuttal Testimony, p. 12.) This is. . . ."

IT IS FURTHER ORDERED that:

4. The applications for rehearing of D.98-09-070, as modified, are denied.
5. These consolidated proceedings are closed.

This order is effective today.

Dated June 10, 1999, at San Francisco, California.

RICHARD A. BILAS
President
HENRY M. DUQUE
JOSIAH L. NEEPER
LORETTA M. LYNCH
JOEL Z. HYATT
Commissioners