

Decision 99-08-019 August 5, 1999

BEFORE THE PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

Pacific Gas and Electric Company, to establish the eligibility and seek recovery of certain electric industry restructuring implementation costs as provided for in Public Utilities Code Section 376.

Application 98-05-004
(Filed May 1, 1998)

San Diego Gas & Electric Company, for (1) a determination of eligibility for recovery under Public Utilities Code Section 376 of certain cost categories and activities, (2) a finding of reasonableness of the costs incurred through 12/31/97, (3) approval of an audit methodology for verifying the eligibility of Section 376 costs for recovery from 1998 through 2001, and (4) approval of a Section 376 balancing account mechanism to recover eligible costs.

Application 98-05-006
(Filed May 1, 1998)

Southern California Edison Company, to address restructuring implementation costs pursuant to Public Utilities Code Section 376, in compliance with Ordering Paragraph 18 of D.97-11-074.

Application 98-05-015
(Filed May 1, 1998)

**OPINION REGARDING SAN DIEGO GAS & ELECTRIC
COMPANY'S PETITION TO MODIFY DECISION 99-05-031**

Summary

In this decision, we grant the petition to modify Decision (D.) 99-05-031 filed by San Diego Gas & Electric Company (SDG&E).

Background

On July 6, 1999, pursuant to Rule 47 of the Commission's Rules of Practice and Procedure, SDG&E filed a petition to modify D.99-05-031. In that decision, we approved a settlement agreement between SDG&E, the Office of Ratepayer Advocates (ORA), and other active parties that disposed of all issues related to SDG&E's application to recover costs to accommodate implementation of direct access, the Independent System Operator (ISO) and Power Exchange (PX), pursuant to Pub. Util. Code § 376 and other costs related to electric restructuring implementation. Among other things, the adopted settlement provided that eligible costs incurred during 1997 through 1999 would be recovered in calendar year 1999. SDG&E now requests that the Commission modify D.99-05-031 to provide for the recovery of the costs over a four-year period, rather than amortizing them over one-year, as the settlement provides.

SDG&E represents that this modification is in the public interest, because the four-year amortization proposal gives ratepayers a more substantial rate decrease than that provided for in the adopted settlement. In addition, SDG&E will not seek interest on any unamortized amounts during the proposed four-year recovery period. Finally, SDG&E represents that all parties to the settlement have authorized SDG&E to state that they do not object to the proposed modification.

The settling parties timely filed a response supporting SDG&E's petition. This is an uncontested matter in which the decision grants the relief requested. Accordingly, pursuant to § 311(g)(2), the otherwise applicable 30-day period for public review and comment is being waived.

Discussion

On June 18, SDG&E filed Advice Letter 1174-E/1155-G that submitted revisions to its electric and gas tariffs to be effective July 1, 1999. This advice

letter consolidated revenue and cost allocation impacts adopted in D.99-06-057, D.99-06-058, D.99-05-031, and D.99-05-051. While SDG&E requested that the change in amortization be implemented through this advice letter filing, the Energy Division properly informed SDG&E of its concerns regarding SDG&E's requested four-year amortization of the restructuring implementation costs, as opposed to the one-year amortization addressed in the settlement adopted by D.99-05-031.

Assuming that the restructuring implementation costs incurred from 1997 – 1999 are recovered by a one-year amortization period, the aggregate impact of rate changes reduces residential electric rates by 1.11%. SDG&E requests a four-year amortization because this approach would reduce residential electric rates by approximately 5.15%, assuming a system average PX price of 2.8 cents per kilowatt hour (kWh).

No party to the settlement adopted in D.99-05-031 opposes this change. We agree that this modification is reasonable and is in the public interest. Ratepayers benefit because SDG&E does not seek interest on any unamortized amounts. In addition, the longer amortization period allows residential ratepayers to benefit from electric restructuring. Such an approach is consistent both with the Preferred Policy Decision (D.95-12-063, as modified by D.96-01-009) in our electric restructuring rulemaking and investigation and with legislative intent. We have consistently looked to competition and market mechanisms to exert downward pressure on rates for all classes of ratepayers. (*Id.*, mimeo., at p. 5.) One of the stated goals of this comprehensive proceeding is to reduce the price California customers pay for electricity. (*Id.*, Conclusion of Law 1, p. 201.) These goals are echoed by the Legislature. (See, e.g., §§ 330 (a), (b), and (e).)

We do have one concern regarding SDG&E's proposal. Recovering costs incurred in prior years over a four-year amortization period has the potential to interfere with our goal of ensuring that customers and competitors receive correct market signals regarding costs and price. On an interim basis, we will address this concern by requiring SDG&E to ensure that these costs are recovered as a separate rate component and are not bundled with PX costs or the price of energy. This approach may be modified by our consideration of various ratemaking issues regarding the post-transition period, as addressed in Application (A.) 99-01-016 et al.

Findings of Fact

1. In D.99-05-031, we approved a settlement agreement between SDG&E, ORA, and other active parties that disposed of all issues related to SDG&E's application to recover costs to accommodate implementation of direct access, ISO and PX, pursuant to Pub. Util. Code § 376, and other costs related to electric restructuring implementation.
2. Among other things, the adopted settlement provided that eligible costs incurred during 1997 through 1999 would be recovered in calendar year 1999. SDG&E now requests that the Commission modify D.99-05-031 to provide for the recovery of these costs over a four-year period, rather than amortizing them over one-year, as the settlement provides.
3. Amortizing restructuring implementation costs over four years rather than one-year would reduce residential electric rates by approximately 5.15%, assuming a system average PX price of 2.8 cents per kWh.
4. If SDG&E's petition is granted, ratepayers benefit because SDG&E does not seek interest on any unamortized amounts and residential ratepayers will enjoy lower rates, a stated benefit of electric restructuring.

5. Recovering costs incurred in prior years over a four-year amortization period has the potential to interfere with our goal of ensuring that customers and competitors receive correct market signals regarding costs and price. On an interim basis, we will address this concern by requiring SDG&E to ensure that these costs are recovered as a separate rate component and are not bundled with PX costs or the price of energy.

Conclusions of Law

1. SDG&E's proposed modification to D.99-05-031 is reasonable and is in the public interest.

2. As stated in the Preferred Policy Decision, we have consistently looked to competition and market mechanisms to exert downward pressure on rates for all classes of ratepayers.

3. Both this Commission and the Legislature have stated that an important goal of electric restructuring is to reduce the price that all California customers pay for electricity.

4. It is reasonable to require SDG&E to ensure that these costs are recovered as a separate rate component and are not bundled with PX costs or the price of energy. This approach may be modified by our consideration of various ratemaking issues regarding the post-transition period, as addressed in A.99-01-016 et al.

5. This order should be effective today, so that SDG&E's rate changes may be implemented expeditiously.

6. There being nothing further to consider in these matters, this proceeding should be closed.

O R D E R

IT IS ORDERED that:

1. The petition to modify Decision (D.) 99-05-031 filed by San Diego Gas & Electric Company (SDG&E) on July 6, 1999 is granted, as discussed herein.
2. The first full paragraph on page 12 in Section IV.B. of the Settlement Agreement approved as Attachment 2 to D.99-05-031 is modified to read as follows:

The rate to recover EMCs will be set to recover over a period of four years the EMCs forecasted for all of 1999 as well as recorded costs for 1997 and 1998. The rate to recover IMCs will be set to recover over a period of four years the IMC revenue requirements for 1997 through 1999 as shown in Table A (attached). The recovery period for both the EMCs and the IMCs will commence on July 1, 1999. To the extent the EMCs and IMCs have been recovered through a rate previously authorized by the Commission, a new rate will be set prospectively to recover the unrecovered 1997 – 1999 EMCs and IMCs as shown in Tables A & B (attached).

3. These costs shall be recovered as a separate rate component and shall not be bundled with Power Exchange costs or the price of energy. This approach may be modified by our consideration of various ratemaking issues regarding the post-transition period, as addressed in Application (A.) 99-01-016 et al.
4. Within five days of the effective date of this decision, SDG&E shall file a compliance advice letter to implement the rate changes adopted herein.

A.98-05-004 et al. ALJ/ANG/mrj

5. A.98-05-004, A.98-05-006, and A.98-05-015 are closed.

This order is effective today.

Dated August 5, 1999, at San Francisco, California.

RICHARD A. BILAS

President

JOSIAH L. NEEPER

JOEL Z. HYATT

CARL W. WOOD

Commissioners

I dissent.

/s/HENRY M. DUQUE

Commissioner