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Decision 99-08-022 August 5, 1999

BEFORE THE PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

Application of PACIFIC GAS AND ELECTRIC COMPANY For Commission Order Finding That Its Electric Operations During The Reasonableness Period From January 1, 1997 To December 31, 1997, as Well As Certain Of Its Gas Operations During The Reasonableness Periods From January 1, 1996 To December 31, 1996 And January 1, 1997 To December 31, 1997, Were Prudent. (U 39 M)	Application 98-04-003 (Filed April 1, 1998)

Ann H. Kim, Attorney at Law, for Pacific Gas and Electric Company, applicant.
Robert Finkelstein, Attorney at Law, for The Utility Reform Network; Dian Grueneich, Attorney at Law, for City and County of San Francisco; Janet Lohmann, Attorney at Law, for Southern California Edison Company; and Steven D. Patrick and David J. Gilmore, Attorney at Law, for Southern California Gas Company, interested parties.
Robert C. Cagen, Attorney at Law, for Legal Division.
Lee-Whei Tan, for Office of Ratepayer Advocates.

OPINION

Summary

This decision orders applicant Pacific Gas and Electric Company (PG&E) to reduce its revenue requirement by $5.8 million to eliminate double-counting of hydroelectric (hydro) and geothermal property taxes, to credit $42,380 to ratepayers due to hydro spill during reduced generation under backdown rules,

and to credit $848,000 to ratepayers due to the effect of operating Diablo Canyon during hydro spill conditions. PG&E is ordered to reduce the shareholder incentive for the Crockett Cogeneration (Crockett) Bridging Agreements by $10,644. In all other respects, PG&E's electric operations, and its gas operations are found to be reasonable.

Southern California Gas Company's request to be compensated for the reduced revenue due to the Midsun termination agreement is denied.

Background

This Energy Cost Adjustment Clause (ECAC) application, filed by PG&E on April 1, 1998, requests a Commission finding that its electric operations during the record period of January 1, 1997, through December 31, 1997, were reasonable. PG&E also requests a finding of reasonableness for its gas storage operations for both the January 1, 1996, through December 31, 1996, and the January 1, 1997, through December 31, 1997, record periods.

The Coordinating Commissioner Ruling (CCR) dated May 14, 1998, ordered PG&E to amend this filing to include recovery of costs related to the Independent System Operator/Power Exchange (ISO/PX) Implementation Delay Memorandum Account (IPIDMA). This was due to the delay of the beginning of the PX and ISO operation from January 1, 1998, to March 31, 1998.

In accordance with that order, PG&E filed its IPIDMA expense recovery as supplemental testimony to the ECAC filing on July 27, 1998. That filing seeks Commission findings that the IPIDMA expenses are reasonable, that PG&E may transfer the IPIDMA balances into its transition cost balancing account (TCBA), and that PG&E was not responsible for causing the PX/ISO delay.

PG&E stated in the application that it anticipated the need for hearings. The Office of Ratepayer Advocates (ORA) filed a timely protest requesting hearings. This matter was preliminarily categorized as a ratesetting proceeding, and it was preliminarily determined that hearings would be necessary by Resolution ALJ 176-2990.

The Scoping Memo and Ruling of Assigned Commissioner dated August 12, 1998, confirmed the proceeding as ratesetting, and assigned Administrative Law Judge (ALJ) Stalder as the presiding officer, but denied the request of Southern California Gas Company (SoCal) to participate in the proceeding with regard to the impact of the termination of the Midsun purchase power agreement on its customers.

SoCal filed a Motion for Reconsideration of the Scoping Memo and Ruling of Assigned Commissioner on August 19, 1998, arguing that PG&E misrepresented the global settlement and that only this proceeding can properly consider the impact of the Midsun termination on SoCal and its ratepayers. SoCal requested that the Commission reconsider allowing it to participate.

In response, the Assigned Commissioner Ruling (ACR), dated October 13, 1998, stated that we allowed SoCal to participate in a similar proceeding dealing with the impacts on its ratepayers of a termination agreement between Southern California Edison Company and Harbor Cogeneration Company. This ACR concluded that SoCal should be allowed to proceed with discovery and submit testimony, without causing delays to the schedule we established, and without committing us to a finding that these impacts must be linked to approval of the termination agreement.

PG&E's motion for protective order was granted by ALJ Ruling dated August 19, 1998, which ordered the unredacted information to be kept under seal for two years from the date of ruling and to be made available to Commission staff and parties to the proceeding who sign a nondisclosure agreement.

Prehearing conferences were held on July 21, 1998, and January 12, 1999, followed by evidentiary hearings on February 3, 4 and 5, 1999. The proceeding was submitted upon receipt of reply briefs on March 15, 1999.

PG&E's Position

No party challenged PG&E's handling of utility electric generation (UEG) gas fuel costs and fuel oil management.

ORA's report disputed the inclusion of hydroelectric and geothermal plant property tax in capital-related revenue, since it had already been included as expenses. This appeared to result in over-stating the revenue requirement by $5.8 million. PG&E agreed in rebuttal testimony to remove $5.8 million in related property taxes from its capital related revenue requirement to avoid double-counting. PG&E acknowledged that it had inadvertently double-counted these property taxes by embedding them in the expense side as well as the capital side.

PG&E disagrees with ORA's recommendation that the IPIDMA revenue requirement be reduced by approximately $2.5 million to reflect the depreciation between the end of 1995 and the beginning of 1998. PG&E believes that using the year-end 1995 value complies with Decision (D.) 97-11-074 and D.97-12-096. PG&E maintains that it is improper to change the depreciation for IPIDMA without changing the many other elements involved in the calculation of rate base that also change over time. PG&E explains that, in D.97-12-096, the Commission ordered PG&E to use its recorded rate base, and the latest adopted rate base was for December 31, 1995. PG&E asserts that updating rate base for only geothermal and hydroelectric capital-related revenue requirement is not appropriate.

Regarding the Midsun power purchase agreement (PPA), PG&E explains that it does not consider the impact on a gas supplier of terminating an agreement with a qualifying facility (QF) such as is the case here. Similarly, PG&E's electric department would not consider that impact on its own gas department. PG&E believes that SoCal's concern about Midsun illegally terminating its long-term contract for gas with SoCal should be handled in civil court, rather than by the Commission. In fact, PG&E states that it is unknown whether Midsun will terminate that agreement.

PG&E states that ratepayers and shareholders achieve two benefits from buying out QF contracts that are uneconomic to PG&E. First, under the shareholder incentive mechanism, shareholders receive 10% and the ratepayer 90% of the savings, subject to Commission approval. Second, there is an indirect benefit to both ratepayers and shareholders in that reducing QF costs increases headroom which allows for earlier collection of Competition Transition Costs (CTC) than would otherwise be possible, hastening the arrival of competition. PG&E believes that it has handled all the renegotiations reasonably and is entitled to the standard 10% shareholder incentive.

ORA

All but two of ORA's issues have now been settled as summarized below:

Issue Raised by ORA	Resolution
Whether the ECAC balancing account should be reduced by \$107,000 to reflect recalculation of the Diablo Canyon adjustment to Incremental Cost Incentive Pricing (ICIP).	ORA verified that the \$107,000 adjustments were made in the TCBA, and no longer requests an adjustment.
An expense reduction of \$149,960 should be made to adjust costs for	ORA verified that these actual hydro spill hours result in a

hydro spill resulting from using PG&E's backdown rules to reduce generation.	refund of $42,380 and PG&E agrees to refund this through the Electric Deferred Refund Account (EDRA).
PG&E should track the El Dorado revenues in a separate account subject to refund, per D.97-12-096.	Since PG&E keeps El Dorado revenues separately identified, which meets the intent of D.97-12-096, ORA withdraws its objection.
PG&E had double-counted property taxes of $5.8 million for hydroelectric and geothermal facilities, and $2.5 million for fossil generation.	PG&E agrees with the $5.8 million adjustment; ORA agrees that the $2.5 million was not double-counted.
The off-system sale disallowance during 1997 hydro spill hours of $848,000 should be refunded to ratepayers through EDRA consistent with D.97-08-061 and D.96-10-035.[1]	PG&E agrees to refund $848,000 to ratepayers through EDRA.
PG&E is not entitled to a shareholder incentive for Crockett QF if it did not meet startup dates.	PG&E demonstrated that it met the on-line terms of the settlement; ORA now agrees. However, the incentive remains in dispute for other reasons.

[1] D.97-08-061 excuses ratepayers from their obligation to purchase Diablo Canyon energy during a hydro spill. D.96-10-035 requires ratepayer refunds to be made directly to ratepayers rather than through the balancing accounts which may be used to offset transition costs and may not reach ratepayers.

The remaining issues concern the correct rate base to use for the IPIDMA revenue requirement and shareholder incentives related to QF restructuring.

ORA argues that it is improper to use the 1995 rate base, which is clearly out of date. While acknowledging that depreciation is being considered in the transition cost proceedings, ORA argues the values adopted there will not be useful in this proceeding. ORA argues that using outdated depreciation values would cause ratepayers to pay more through the IPIDMA account because of the resulting inflated revenue requirement from the inflated rate base. Therefore, in fairness to ratepayers, ORA maintains that the rate base should be adjusted for the depreciation of calendar years 1996 and 1997. ORA believes that it is fair to adjust for depreciation and not consider capital additions during those years, since capital additions are being handled separately in other proceedings.

ORA asserts that PG&E's requested shareholder incentives should be reduced by a total of $697,737 due to three QF contract renegotiations.

ORA argues that the pay-for curtailment renegotiation in the Sierra Pacific Industries (SPI)-Hayfork restructuring should not be eligible for a shareholder incentive. ORA also maintains that there should be no shareholder incentive for the Hershey Foods (Hershey) PPA termination agreement. Finally, ORA claims that the shareholder incentive for the Crockett bridging agreements should be reduced to more realistically reflect fewer start-ups. Since ORA's testimony was taken under seal as part of the confidentiality granted PG&E, the details are not discussed here.

<u>SoCal</u>

SoCal's only issue relates to whether the effect of the Midsun renegotiation on SoCal should be alleviated.

SoCal hired a consultant to evaluate the viability of Midsun and the likelihood of its continued operation for the balance of the QF agreement period with PG&E. SoCal's consultant assessed both the economic and technical viability of the facility. Technical viability relates to the operation of the facility and whether the operation adequately met the requirements of the contract so that it maintained its status as a QF with attendant capacity payments. Without capacity payments, the facility would not be economically viable, in his opinion. He concludes that Midsun was marginally viable under the QF contract, and considering that, believes PG&E paid too much to terminate its agreement with Midsun. SoCal's consultant also maintains that one should consider the after-tax effects on earnings when considering financial viability. PG&E did not consider this factor in assessing its financial viability.

SoCal maintains that renegotiations of a contract such as Midsun must consider not only the benefit to the primary utility, but also the secondary effect on other utilities. SoCal believes that it is not equitable for one utility to benefit at the expense of another as a result of a contract renegotiation. Although SoCal recognizes that there is no Commission policy to do so at this time, SoCal asserts that equity requires the Commission to evaluate both the primary and secondary affects. In this case, SoCal claims that PG&E should reimburse SoCal for the harm to its ratepayers from the Midsun termination agreement, in the amount of $5.9 million.

Discussion

As indicated above, ORA raised several issues in this reasonableness review. PG&E and ORA have agreed on all but two issues. These stipulations are reasonable. We discuss the remaining disputed issues and address whether the effect of the Midsun negotiation on SoCal should be alleviated.

1. IPIDMA Revenue Requirement

PG&E and ORA dispute the correct year rate base to use for the IPIDMA revenue requirement. While both PG&E and ORA point to Commission decisions as supporting their position, those decisions do not clearly address this matter. D.97-12-096 states, "We therefore adopt the use of recorded capital-related costs for 1998 as recommended by PG&E and ORA, with provisions for post-1997 capital additions as discussed in Section 4.3... we are satisfied that the program we adopt today for establishing PG&E's hydroelectric and geothermal revenue requirement represents a fair balancing of risk and rewards overall." (D.97-12-096, mimeo. at p.7.) Section 4.3 is entitled "Post-1997 Capital Additions".

ORA is correct that the capital additions proceeding handles capital additions, but neglects to mention that it also depreciates rate base. Finding of Fact 19 in D.97-11-074 dated November 19, 1997, states "As of January 1, 1998, the net book value of the fossil generating plants as of December 31, 1995, should be amortized over the 48-month period. . . . As the capital additions proceedings are completed, we will allow adjustments to net book value to reflect our findings in these proceedings and account for depreciation accrued in 1996 and 1997." Updated amounts for rate base and depreciation will also be confirmed in PG&E's Annual Transition Cost Proceeding (ATCP).

We conclude it is improper to do as ORA suggests, i.e., to depreciate rate base here without considering other rate base changes, including capital additions. If we adopted ORA's recommendation, we would be considering only one factor that affects rate base. Therefore, we will deny the $2.5 million reduction to PG&E's IPIDMA filing balance that ORA requests.

Next we deal with the issue of shareholder incentives for QF renegotiations. PG&E renegotiated 33 QF contracts during 1997. Of those, 15 QF contracts were renegotiated to achieve buyouts, terminations, or contract amendments, while 18 were renegotiated to achieve pay-for-curtailments. ORA does not request any disallowance for any of the 33, but questions certain of the benefits estimated by PG&E, and recommends that the shareholder incentive to PG&E be reduced from $2.9 million to $2.2 million. ORA believes that PG&E either did not negotiate anything of value to ratepayers, or that PG&E's estimate of benefits is overly optimistic. ORA thus contends that this would result in inflated shareholder benefits.

a. SPI-Hayfork

There are two separate agreements involving the termination of SPI's agreement with PG&E for the Hayfork facility. One deals with termination of the PPA which was executed in early 1997. The other is an agreement for pay-for-curtailment.

ORA does not challenge the reasonableness of the termination agreement, but opposes the 10% shareholder incentive for the pay-for-curtailment agreement. ORA believes that PG&E has not demonstrated that its cost-effectiveness analysis is accurate, and therefore the actual benefits may be much less than PG&E estimates. ORA contends that the shareholder incentive could thus be greater than it otherwise would be, if based on more accurate, lower estimates of benefits. ORA notes that PG&E unexplainably seeks the shareholder incentive only for the pay-for-curtailment agreement, and not for the termination agreement.

PG&E responds that the pay-for-curtailment agreement and the termination agreement were separate, stand-alone deals, with different time periods, and that PG&E would have entered into the pay-for-curtailment agreement even if the termination agreement were never consummated. PG&E

states that it did not seek a shareholder incentive for the termination agreement because it involves legal issues, and could involve double-dipping due to possible overlap of issues between the two agreements. PG&E notes that ORA's contention that the project was not financially viable for the long-term is irrelevant, to the extent that the term exceeds the remaining period of the pay-for-curtailment agreement.

PG&E stresses that ORA does not challenge the reasonableness of either agreement, only arguing that the shareholder incentive should not apply to the pay-for-curtailment agreement, which PG&E believes is inconsistent. PG&E maintains that the pay-for-curtailment agreement benefited its ratepayers by reducing QF energy costs and providing greater operating flexibility.

Although it is possible that PG&E's estimate of benefits may be somewhat overstated, which would result in its shareholders receiving an inflated incentive compared to an incentive based on a more realistic estimate of benefits, ORA does not provide an estimate that it believes is more reasonable. Thus, our only options in this matter are to allow the shareholder incentive as requested, eliminate it entirely, or arbitrarily reduce it. We don't believe either of the latter options is justified in this instance. We conclude that since the pay-for-curtailment agreement is reasonable, which ORA does not dispute, PG&E's shareholders are entitled to the 10% incentive. We will base this incentive on the only estimate of benefits we have in the record, that of PG&E.

b. Hershey Contract

ORA believes that PG&E's termination of this contract was effectively a voluntary termination by Hershey, since PG&E did not obtain additional benefits to its ratepayers beyond that offered by Hershey when it initiated discussion of the contract termination. ORA believes that shareholder incentives should not apply when a QF voluntarily terminates its PPA. ORA also argues that PG&E did not assess the financial viability of this facility, and the facility's operational history does not support PG&E's calculation of ratepayer benefits, since it was unlikely to operate to the extent PG&E used to calculate ratepayer benefits.

ORA states that Modesto Irrigation District (MID) approached Hershey and offered to provide electricity at a price that was lower than Hershey's cost of energy produced at its QF facility. Upon accepting this offer, Hershey needed to shutdown its QF operation and terminate the PPA. Despite several months of negotiations, PG&E did not obtain any additional benefits for ratepayers than were initially offered by Hershey. ORA argues that PG&E did not provide sufficient information, including, e.g., Hershey's project or financial viability analysis based on a forecast of Hershey's operating income. ORA contends that PG&E's forecast of Hershey's energy deliveries is not supported by Hershey's historical operation track records. On this basis, ORA concludes that PG&E's calculation of ratepayer benefits is flawed, and further notes that PG&E has not assessed the effect of loss of transmission or distribution revenues due to the termination of the PPA. In summary, ORA does not dispute the reasonableness of the PPA termination, but believes that PG&E shareholders are not entitled to a 10% sharing of benefits.

PG&E argues, to the contrary, that it has demonstrated ratepayer benefits and is entitled to the shareholder incentive. PG&E also cites D.94-05-018 as setting forth the parameters for evaluating the reasonableness of QF contract renegotiations. PG&E argues that this renegotiation was the result of protracted and diligent negotiations. There was an urgency concern in dealing with Hershey since, in addition to the option of terminating the PPA with PG&E,

Hershey was also considering several other options in addition to terminating the PPA. It could:

(i) continue to operate its QF facility and sell the power to PG&E, which could result in over-market payments of $7 million on a present worth basis over the remaining term of the contract;

(ii) or sell to a third party who would operate it as a QF.

We believe that PG&E handled this renegotiation reasonably. Hershey had other viable options that would have been costly to PG&E's ratepayers, and although Hershey's primary mission is candy production, as a business it would likely not shy away from power production if profitable. PG&E negotiated with Hershey over a period of several months in 1997, and has presented evidence that it considered Hershey's options in the negotiations. There is no requirement that a utility must obtain more benefits than those initially offered by the QF, in order to obtain the shareholder incentive. In this case we have evidence that PG&E was well prepared and developed reasonable strategies for the meetings and negotiations.

Further clarification is offered in D.94-05-018 which states, "While we do not require a utility to investigate the viability of the QF as part of negotiations of a payment restructuring, we agree with DRA that the utility should not ignore material facts it becomes aware of that affect the QF's ability to perform under the original or proposed contract...the utility has an obligation to act reasonably in light of all the facts known to it." (54 CPUC2d p. 387.)

D.95-12-063 states, "We endorse an approach that involves both a monetary incentive to shareholders and conditions which foster voluntary, non discriminatory negotiations. We will allow shareholders to retain 10% of the net ratepayer benefits resulting from a renegotiation...the modifications are voluntary on the part of the QF and should provide ratepayer benefits relative to the most probable stream of payments to the QF without the modification, and should benefit from the flexibility that non-standard, arm's length negotiations have previously revealed." (64 CPUC2d p. 65.)

Regarding the issue of lost revenues from transmission and distribution services due to the renegotiation, PG&E was apparently already negotiating with MID for it to purchase these facilities that serve Hershey, thus those revenues were already effectively lost. We observe that PG&E's assessment of the financial viability of the Hershey facility appears to be validated by history; Hershey continues to sell its surplus output to MID.

ORA does not dispute PG&E's handling of this matter, but does dispute its entitlement to shareholders' benefit sharing. We disagree. Based on the evidence presented, we conclude that PG&E's handling of this PPA restructuring is adequate and qualifies for the shareholder incentive.

c. Crockett

Two agreements with Crockett are at issue: the First Bridging Agreement Extension covers the seven-month period from May 21, 1997, to November 27, 1997; the Second Bridging Agreement Extension covers the period from November 28, 1997, through March 31, 1998. The Third Bridging Agreement is not at issue.

ORA recommends that PG&E not be granted the 10% shareholder incentive based on PG&E's forecasted level of benefits. ORA reduced the number of start-ups and the shareholder incentive it recommends accordingly, based on the lower estimate of start-ups PG&E forecasted in A.97-10-006.

PG&E believes that it has demonstrated ratepayer benefits from the two bridging agreements and is entitled to the full 10% shareholder benefits. Crockett has met the scheduled start-up dates, and PG&E contends that ORA has no valid basis for reducing the estimated number of start-ups.

While the actual numbers of start-ups that each party believes to be reasonable are confidential, we note that the disagreement hinges on whether the record period is the proper basis for predicting future performance. PG&E argues that other factors may affect start-ups, and bases its estimate on the perception that a new project will improve its performance over time. ORA, on the other hand, bases its estimate on the record period of about a year and a half, but also considers other factors affecting start-ups, including expected market conditions in arriving at its estimate. ORA argues that PG&E optimistically overstated start-ups and attendant benefits, which in turn increases shareholder benefits. We agree that ORA's more conservative estimate of start-ups is more representative of actual expected values. Therefore, we will reduce the shareholder incentive for Crockett by $10,644 as ORA recommends. Although this adjustment is small compared to the total shareholder incentive, it nevertheless is important to ensure that PG&E's shareholders do not receive overstated incentives.

2. Midsun Effect on SoCal

SoCal participated in this proceeding only with respect to the Midsun termination agreement, arguing that SoCal ratepayers should be compensated for the loss resulting from this transaction. While SoCal argues that it is improper for one utility to enter into an agreement that benefits its ratepayers without considering the resultant negative impact on other utilities, it acknowledges that the Commission has not formally addressed this issue. SoCal maintains that PG&E should pay SoCal's ratepayers $5.9 million for the loss SoCal will incur as a result of the Midsun QF contract renegotiation.

ORA opposes this recommendation but agrees with SoCal that future renegotiations should consider the impacts of the renegotiation on other utilities. We note that in D.99-02-085, we recently denied a similar SoCal request, stating in Ordering Paragraph 10:

> "SoCalGas' proposal that we (1) require all estimated benefits expected from renegotiated QF contracts to be adjusted to compensate gas ratepayers for higher gas transportation rates due to the renegotiated contract, and (2) allow SoCalGas to become an active participant in the QF renegotiations process of any QF that is a customer of SoCalGas, is denied." (D.99-02-085, dated February 18, 1999, mimeo., at p. 43). We will not alter that policy in this proceeding, and will deny SoCal' request.

SoCal also testified that PG&E paid too much for the Midsun buyout because the operation was marginal. We are not convinced by this testimony, which is beyond the scope of testimony allowed SoCal in the Scoping Memo.

3. Comments on Proposed Decision

Comments on the proposed decision were filed by PG&E, ORA, and SoCal. Reply comments were filed by PG&E. The comments of the three parties substantially reargue positions that were not adopted in the proposed decision, and consequently, in accordance with Rule 77.3, are accorded no weight. In addition, PG&E requested certain clarifications in the Findings of Fact, Conclusions of Law, and Ordering Paragraphs. Those changes have been made where appropriate.

Findings of Fact

1. PG&E should reduce its revenue requirement by $5.8 million to eliminate double-counting of hydroelectric and geothermal related property taxes.

2. PG&E should be ordered to refund $42,380 to ratepayers through EDRA due to hydro spill during reduced generation under backdown rules.

3. PG&E should be ordered to refund $848,000 to ratepayers through EDRA to compensate for the effect of operating Diablo Canyon during hydro spill conditions.

4. It is not reasonable to update IPIDMA for only the effect of depreciation, without considering other rate base changes.

5. PG&E should be allowed to recover costs related to the IPIDMA.

6. We conclude that PG&E's handling of the SPI-Hayfork pay-for-curtailment agreement and Hershey PPA restructuring is adequate.

7. ORA's estimate of start-ups related to the Crockett bridging agreements is more representative of actual, expected values.

8. PG&E's shareholder incentive for the Crockett renegotiation should be reduced by $10,644 to reflect the lower number of start-ups and reduced ratepayer benefits.

9. In all other respects, PG&E's electric operations from January 1, 1997 to December 31, 1997 are reasonable.

10. PG&E's gas operations during the 1996 and 1997 record periods are reasonable.

11. SoCal's request that it be compensated for the effect on its ratepayers of the Midsun renegotiation should be denied.

Conclusions of Law

1. There is no evidence that PG&E is responsible for the delay in the beginning of the PX/ISO operation.

2. Updated depreciation and rate base amounts will be considered in the capital additions proceedings and the ATCP.

3. The SPI-Hayfork pay-for-curtailment agreement and the Hershey PPA restructuring agreement are reasonable and qualify for the shareholder incentive, based on PG&E's estimate of ratepayer benefits.

4. The Commission denied SoCal's proposal to consider criteria for evaluating the secondary effects of QF renegotiations in D.99-02-085.

5. This order should be effective today, in order to allow all revenue requirement changes to take place expeditiously.

ORDER

IT IS ORDERED that:

1. Pacific Gas and Electric Company (PG&E) shall reduce its revenue requirement by approximately $5.8 million to avoid double counting of hydroelectric and geothermal related property taxes.

2. PG&E's shareholder incentive for the Crockett Cogeneration First and Second Bridging Agreements shall be reduced by $10,644.

3. PG&E shall credit the Electric Deferred Refund Account (EDRA) in the amount of $42,380 due to hydro spills during reduced generation conditions.

4. PG&E shall credit the EDRA in the amount of $848,00 due to operating Diablo Canyon during hydro spill conditions.

5. In all other respects, PG&E's electric operations during the period of January 1, 1997, through December 31, 1997, are reasonable.

6. PG&E's costs from January 1, 1998, to March 31, 1998, recorded in the Independent System Operator/Power Exchange Implementation Delay Memorandum Account are reasonable and shall be transferred to its Transition Cost Balancing Account for recovery.

7. PG&E is entitled to shareholder incentive it requests for the Sierra-Pacific Industries/Hayfork termination agreements and for the Hershey purchased power agreement restructuring.

8. PG&E's gas storage operations for the 1996 and 1997 record periods are reasonable.

9. Southern California Gas Company's request for compensation due the effect of the Midsun Qualifying Facility renegotiation is denied.

10. This proceeding is closed.

This order is effective today.

Dated August 5, 1999, San Francisco, California.

RICHARD A. BILAS
President
HENRY M. DUQUE
JOSIAH L. NEEPER
JOEL Z. HYATT
CARL W. WOOD
Commissioners