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PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

COMMISSION ADVISORY AND
COMPLIANCE DIVISION
Energy Branch

RESOLUTION E-3459*
July 17, 1996

R E S O L U T I O N

RESOLUTION E-3459. PACIFIC GAS AND ELECTRIC COMPANY,
SAN DIEGO GAS & ELECTRIC COMPANY, AND SOUTHERN
CALIFORNIA EDISON COMPANY REQUEST COMMISSION
AUTHORIZATION TO ESTABLISH ISO-PX MEMORANDUM ACCOUNTS.

BY ADVICE LETTER 1581-E FILED ON MAY 31, 1996, ADVICE
LETTER 987-E, AND ADVICE LETTER 1167-E, FILED ON MAY 30,
1996, RESPECTIVELY.

SUMMARY

1. By Advice Letters 1581-E, 987-E, and 1167-E Pacific Gas and Electric Company (PG&E) and San Diego Gas & Electric Company (SDG&E) and Southern California Edison Company (SCE) request Commission authorization to establish memorandum accounts for recording costs incurred to develop the Independent System Operator (ISO) and Power Exchange (PX) as ordered in Decision (D.) 95-12-063, as modified by D.96-01-009 (Restructuring Decision).
2. No protests were filed.
3. This Resolution approves in part PG&E Advice Letter 1581-E, SDG&E Advice Letter 987-E, and SCE Advice Letter 1167-E, and clarifies aspects not addressed in the request.

BACKGROUND

1. The ISO and PX are necessary for the transition of the electric industry to a more competitive structure, as discussed and outlined in our Restructuring Decision.
2. The Restructuring Decision requires that these new institutions be ready to serve the investor owned utilities' load reliably no later than January 1, 1998. In order to meet this deadline, various developmental tasks must be undertaken before that time.
3. As with other aspects of Restructuring implementation, it is important that developmental work involve the stakeholders that the ISO and PX will serve. Investor-owned utilities (IOUs) have the added obligation of applying for Federal Energy Regulatory Commission (FERC) approval of the ISO and PX.
4. Funding needed to pursue development tasks has not been explicitly provided for in existing rates, is substantial in

magnitude, and should not be paid by utility shareholders. (Coordinating Commissioner Ruling dated May 1, 1996.)

5. In the Coordinating Commissioner Ruling of May 1, 1996, the IOUs were requested to file a joint application addressing funding options for development costs for the ISO and PX. PG&E, SDG&E, and SCE (the IOUs) have filed such an application.

6. During the pendency of the ISO-PX Funding Application, expenditures will be made by the IOUs to keep development work on schedule for completion no later than January 1, 1998.

7. A memorandum account is designed to record the expenditure of funds which have not been authorized in rates. A memorandum account is one mechanism by which the Commission can permit ISO and PX development expenditures to accrue and retain the ability to include those costs in rates at a later date.

NOTICE

1. PG&E Advice Letter 1581-E, SDG&E Advice Letter 987-E, and SCE Advice Letter 1167-E were served on other utilities, government agencies, and to all interested parties who requested such notification, in accordance with the requirements of General Order 96-A and the service list in R.94-04-031/1.94-04-032.

PROTESTS

1. No protests were received by the Commission Advisory and Compliance Division (CACD).

DISCUSSION

1. The Commission will decide upon the appropriate funding mechanism, including a stakeholder governance structure for managing development work, through the Application for ISO and PX Funding. That decision may or may not include development costs in rates. In order to preserve the Commission's opportunity to use rate recovery to fund development tasks, a memorandum account is appropriate.

2. PG&E and SCE have requested inclusion of labor expenses in the memorandum account to the extent they are not already included in rates; SDG&E did not explicitly exclude labor costs. The Coordinating Commissioner Ruling of May 1, 1996 stated that the development costs (as defined in scope by a trust document) "should provide for the exclusion of utility employee labor or associated labor costs (e.g., insurance, pensions)." (p. 10.)

3. The memorandum account tariff language should exclude all utility labor expenses, without respect to whether they were accurately forecast at the time the Commission last established the cost of labor in rates. A delineation of forecast utility labor costs between generalized forecast error and unforecast ISO/PX development work would be highly speculative, time

consuming, and contrary to representations made regarding the desired scope of development funding.

4. An application process would be more appropriate to establish incremental labor costs associated with ISO and PX funding, but only to the extent it required the hiring of additional employees, and demonstrated that such additional employees were not included in general employee turnover (hirings minus terminations) used to set base rates. A timely decision concerning either the memorandum account requests and the Funding Application does not allow for a process that would explore such factual determinations, as was indicated by the above quoted specification in the Coordinating Commissioner Ruling.

5. The IOUs have requested the option to transfer developments costs booked in the memorandum account as authorized by the Commission in either the ISO and PX Funding Application or "by separate application".

6. Current estimates of development costs are substantial, and too much uncertainty during an important transitional period for competitive entrants would be created by an open ended, time indefinite, and procedurally unspecified future rate proceeding.

7. As the IOUs have filed an application for funding, the preliminary statement should be narrowed to provide for ultimate recovery granted through that application.

8. PG&E, SDG&E, and SCE have requested that separate subaccounts shall be maintained within the memorandum account to segregate the costs associated with the ISO and the PX. It is the Commission's understanding that the ISO software and hardware will be booked entirely to the ISO subaccount, despite its interface capabilities with many other market participants, including the PX. This clarification is a material element of approval of the memorandum account.

9. One of the costs of ISO and PX development at this time is the expense associated with consultants and service providers for establishing the trust described in the Coordinating Commissioner's Ruling. Such costs may be booked into the development memorandum account authorized.

FINDINGS

1. Pacific Gas and Electric Company, San Diego Gas & Electric Company, and Southern California Edison Company filed Advice Letters 1581-E on May 31, 1996; 987-E on May 30, 1996; and 1167-E on May 30, 1996 respectively.

2. It is reasonable to approve a memorandum account for ISO and PX development costs that will be incurred in order to implement restructuring reforms no later than January 1, 1998.

3. With the exception of labor costs, the requests of PG&E, SDG&E, and SCE with respect to memorandum accounts should be granted.
4. ISO software and hardware development expenses should be allocated entirely to an ISO subaccount in the memorandum account.
5. ISO and PX development costs placed in the memorandum account may include the expenses associated with consultants or other service providers that assist in the establishment of a development trust.

THEREFORE, IT IS ORDERED that:

1. Pacific Gas and Electric Company, San Diego Gas & Electric Company, and Southern California Edison Company shall refile Advice Letters 1581-E, 987-E, and 1167-E, respectively, as supplemental Advice Letters within 15 days of adoption of this resolution. The supplemental Advice Letters shall include revised tariff sheets to modify their respective Preliminary Statements for a memorandum account to record costs incurred to develop an Independent System Operator and Power Exchange, to exclude all utility labor expenses and provide only for recovery of balances authorized through the ISO and PX Development Funding Application in R.94-04-031/I.94-04-032.
2. Supplemental Advice Letters containing the modifications described above shall be marked to show they were approved by Commission Resolution E-3459, and shall be effective upon filing.
3. Utilities' requests to include portions of labor expenses in the ISO and PX memorandum account, and recover development costs through other applications, are denied without prejudice.

4. ISO software and hardware development expenses shall be allocated entirely to an ISO subaccount in the memorandum account.

5. This Resolution is effective today.

I hereby certify that this Resolution was adopted by the Public Utilities Commission at its regular meeting on July 17, 1996. The following Commissioners approved it:



WESLEY FRANKLIN
Executive Director

P. GREGORY CONLON
President

DANIEL Wm. Fessler

JESSIE J. KNIGHT, Jr.

HENRY M. DUQUE

JOSIAH L. NEEPER

Commissioners