

PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

ENERGY DIVISION

RESOLUTION E-3527  
NOVEMBER 19, 1998

RESOLUTION

RESOLUTION E-3527. THE COMMISSION ADOPTS CHANGES TO RESOLUTION E-3514 TO COMPLY WITH STATE LAW. ONLY CREDIT BALANCES IN THE TRANSITION REVENUE ACCOUNT (TRA) MAY BE TRANSFERRED TO THE TRANSITION COST BALANCING ACCOUNTS (TCBA). DEBIT BALANCES MAY BE CARRIED OVER IN THE TRA FROM MONTH-TO-MONTH, BUT MAY NOT BE TRANSFERRED TO THE TCBA.

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SUMMARY

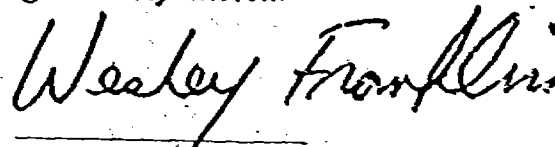
1. The purpose of this Resolution is to correct an error in Resolution E-3514, dated December 16, 1997, by changing the Transition Revenue Account (TRA) in order to specify that only credit balances in the TRA may be transferred into the Transition Cost Balancing Account (TCBA). This change is necessary in order for the utility tariffs to be compliant with the provisions of Section 367 of the Public Utilities Code.
2. This Resolution also directs Southern California Edison Company (Edison) to bifurcate its debit entry related to *Distribution TRA Separated Revenue*.
3. San Diego Gas & Electric Company (SDG&E) is directed to replace Part VII.C. of its Preliminary Statement which was inadvertently omitted from the tariffs filed in Advice Letter 1052-E-A in compliance with Resolution E-3514.

BACKGROUND

1. Resolution E-3514 authorized Pacific Gas and Electric Company (PG&E) and Edison to file tariffs to establish a TRA. The TRA was authorized on October 28, 1997 by the Streamlining Decision (D.) 97-10-057. As described for PG&E on page 15 (Slip Opinion), in order to calculate "headroom", "...the TRA will track revenues by function consistent with existing regulatory mechanisms to calculate the level of credits available for paying off uneconomic generation costs." PG&E subsequently

Nov 19, 1998

I certify that the foregoing resolution was duly introduced, passed, and adopted at a conference of the Public Utilities Commission of the State of California held on November 19, 1998; the following Commissioners voting favorably thereon:



WESLEY M. FRANKLIN  
Executive Director

RICHARD A. BILAS  
President

P. GREGORY CONLON

JESSIE J. KNIGHT, JR

HENRY M. DUQUE

JOSIAH L. NEEPER

Commissioners

filed Advice Letter 1705-E on November 3, 1997 in order, among other things, to establish a TRA.

2. With regard to Edison, D.97-10-057 stated on p. 20 (Slip Opinion), "...our intent is that the calculation of Edison's 'headroom' would be made as if Edison had a TRA. If Edison believes it requires a specific account to effect this calculation it may propose one in the tariff modifications it submits in compliance with this order." Subsequently, Edison filed Advice Letter 1255-E on November 3, 1997 in order, among other things, to establish a TRA.
3. SDG&E was not authorized to establish a TRA by D.97-10-057, therefore SDG&E's Advice Letter 1052-E and Supplemental Advice Letter 1052-E-A were filed to comply only with the non-TRA related issues in Resolution E-3514.
4. In Ordering Paragraph 14 of D.97-11-074 (Phase 2 Transition Cost Proceeding), the Commission ordered the utilities to establish TCBA's to track the amortization of uneconomic assets. Each month the TCBA is credited with the amount of "headroom" available under existing frozen rates – the calculation performed in the TRA.
5. The Energy Division reviewed the streamlining tariffs proposed by the utilities. On December 16, 1997, the Commission adopted Resolution E-3514, which contained revised language to the utilities' proposed tariffs.
6. The basic structure of the TRA ordered by Resolution E-3514 was the following:
 

(credit)	Total monthly revenues from electric sales
(debit)	Distribution component
(debit)	Transmission component
(debit)	Public benefit component
(debit)	Nuclear Decommissioning component
(debit)	PX component
(debit)	ISO component
(credit)	Shareholder Participation component (related to special contracts)
(balance)	to be transferred to the TCBA at the end of each month.
7. In January of 1998, the Energy Division became aware of a problem in the TRA language which it had previously overlooked. Resolution E-3514 stated that for the balance of the TRA, either a "debit or credit entry, as appropriate..." was to be transferred to the TCBA. The Energy Division believes that this language inconsistent with Section 367 of the Public Utilities Code and proposes to amend it as described in the Discussion section.

8. With respect to SDG&E's non-TRA tariffs, Part VII.C. of the Preliminary Statement (which addresses the Hazardous Substance Clean-up Account) was inadvertently omitted from Advice Letter 1052-E-A.
9. On June 26, 1998, the Energy Division mailed a Proposed Resolution to the parties on the service list in R.94-04-031/I.94-04-032, soliciting comments from the parties. The Proposed Resolution recommended that credit only balances may be transferred from the TRA into the TCBA. The Proposed Resolution also directed SDG&E to replace certain parts of its Preliminary Statement which was inadvertently omitted from the tariffs filed in compliance with Resolution E-3514.
10. PG&E, SDG&E, and Edison provided comments to the Proposed Resolution.
11. No replies were submitted.
12. SDG&E's comments were minor corrections and clarifications to the Proposed Resolution. Those comments have been incorporated into this Resolution.
13. PG&E commented that it does not necessarily agree with the Proposed Resolution that it is inconsistent with Section 367 of the Public Utilities Code to transfer debit balances in the TRA into the TCBA. However, "PG&E does agree with the Draft Resolution E-3527 that it is reasonable for PG&E's tariffs to specify that only credit balances (i.e., not debit balances) in the TRA may be transferred into the TCBA, provided the debit balances in the TRA are carried forward in the TRA from month-to-month and earn interest at the three-month commercial paper rate." To make this outcome clear, PG&E suggested several revisions to the Findings of the Proposed Resolution.
14. Edison noted in its comments that it believes the Proposed Resolution E-3527:
  - a) "is imbalanced in its treatment of revenues to Edison from selling its generation output to the PX and the payments by Edison for energy and other services purchased from the PX; and
  - b) is deficient in handling the timing issues related to when a negative balance in the TRA occurs."
15. Edison also suggested to revise the TRA to bifurcate the current debit entry related to the *Distribution TRA Separated Revenue* into:
  - a) A debit entry equal to the annual applicable *Distribution PBR-related TRA Separated Revenues*, and
  - b) A debit entry equal to the annual applicable *Distribution PBR Exclusions TRA Separated Revenue Requirement Amount* divided by twelve.

**NOTICE**

1. A copy of the Energy Division's Proposed Resolution E-3527 was provided to the parties of record in R.94-04-031/1.94-04-032.

**PROTEST**

1. Parties wishing to protest and/or comment on the Proposed Resolution were instructed to send a copy of their protest/comments to all parties on the service list of R.94-04-031/1.94-04-032 and to the Chief of IMC Branch, Energy Division of the Commission, within 20 days of the date on the cover letter of the Proposed Resolution. Replies to comments were due 10 days later.
2. The ED received comments from SDG&E, PG&E, and Edison. No replies were submitted.

**DISCUSSION**

1. Pursuant to Public Utilities Code, Section 367, the Commission must identify appropriate categories for transition costs treatments:

"The commission shall identify and determine those costs and categories of costs for generation-related assets and obligations, consisting of generation facilities, generation-related regulatory assets, nuclear settlements, and power purchase contracts, including, but not limited to, restructurings, renegotiations or terminations thereof approved by the commission, that were being collected in commission-approved rates on December 20, 1995, and that may become uneconomic as a result of a competitive generation market, in that these costs may not be recoverable in market prices in a competitive market, and appropriate costs incurred after December 20, 1995, for capital additions to generating facilities existing as of December 20, 1995, that the commission determines are reasonable and should be recovered, provided that these additions are necessary to maintain the facilities through December 31, 2001. These uneconomic costs shall include transition costs as defined in subdivision (f) of Section 840, and shall be recovered from all customers or in the case of fixed

transition amounts, from the customers specified in subdivision (a) of section 840, on a nonbypassable basis..." [bold added]

2. Edison argues that because of the structure of its TRA, its transmission and distribution revenues do not impact the monthly TRA balance and the impact from differences between actual Public Purpose Programs and Nuclear Decommissioning revenues and their authorized revenue requirements are diminutive. Therefore, Edison states that the "recorded Commission authorized payments to the ISO and PX are the only components of the account which could force the monthly TRA balance to be a debit amount."
3. Edison finds the ED's proposed approach inequitable because "at the same time that the payments to the ISO and PX are increasing, potentially making the TRA balance negative, additional funds from sales of Edison's generation output to the PX are being directly credited to the TCBA which will result in a direct benefit to the customers by immediately reducing transition costs recorded in the TCBA." Edison argues that with an increase in the PX price, the ED's proposal results in the utilities bearing the risk of debit balances in the TRA while the benefits of the increases in the market price related to sale of their generation output to the PX are entirely reflected in the TCBA. Edison "believes that this deficiency in the proposed Resolution can be overcome by prohibiting transfer of negative balances from the TRA to the TCBA if they are caused by entries other than Edison's payments to the PX which also reduce the TCBA balance."
4. Edison's argument regarding the imbalance treatment of revenues from sales to the PX and costs of procuring energy from the PX is inaccurate and inconsistent with the law.
5. As Edison has noted, because of the structure of its TRA, the PX payments and revenues from the PX are the only major components of the account that can force the monthly TRA balance to be a debit amount. Other entries to the TRA account do not impact the balance, or have a very small impact on the balance. Nonetheless, none of the components in the TRA, including the PX payments, were prescribed as transition costs by the law. The TRA itself does not deal with generation facilities, generation-related regulatory assets, nuclear settlements, or power purchase (e.g., Qualifying Facilities) contracts as specified in Section 367. Therefore, if negative balances from the TRA, whether generated by the entries related to the PX payment or any other components of the TRA, were to be allowed into the TCBA, effectively they would become transition costs eligible for cost recovery, which is inconsistent with the plain language of the statute.

6. In addition to being inconsistent with the law, Edison's proposal inaccurately describes the treatment of additional funds from sales of its generation to the PX. Utilities were ordered to establish a Power Exchange Revenue Memorandum Account (PXRMA) in D.97-11-074 to track the difference between actual going-forward costs and market revenues from their non-must run plants. The PXRMA tracks revenues from the PX on a monthly basis. These revenues are then applied to costs incurred in other months. On an annual basis, market revenues in excess of costs are transferred to the TCBA to offset transition costs. Therefore, Edison's statement that additional funds from sales of its generation to the PX are directly credited to the TCBA is not accurate. Only excess revenues are allowed to be transferred to the TCBA after they have been reviewed in the Annual Transition Cost Proceeding.
7. Given the requirement in the statute, it is reasonable during the transition period to allow monthly debits in the TRA to carry over to the next month and earn interest at the three month commercial paper rate. However, no debit balances from the TRA may be transferred to the TCBA. Only credit balances in the TRA may be transferred to the TCBA.
8. At the end of the rate freeze, there may be a debit balance left in the TRA. Edison is concerned that it "can be unjustly harmed if a debit balance is recorded in the TRA during the latter part of the rate freeze period. For example, if the monthly TRA calculation results in a debit amount during the first month of operation, it is very likely to be offset by future credit amounts. However, if in the last month of operation, the TRA monthly calculation results in a debit amount, Edison will not have the opportunity to recover this amount in future periods." Edison believes that this condition results solely because of the timing of the debit. To remedy this condition, Edison proposes that "the amount transferred to the TCBA should be determined in aggregate based on the accumulated balance over the entire rate freeze and not in monthly increments."
9. Edison's concern that TRA's monthly calculation could impact the recovery of costs incurred during the later part of the rate freeze, is mainly a concern about how the debit balance at the end of the rate freeze is treated. In fact, as Edison notes in its response, it does not oppose Energy Division's overall proposed modification, but disagrees with the part that the total amount transferred to the TCBA could differ because of the timing of the debit. Edison's concern may be remedied if Edison was allowed to transfer the debit balances at the end of the rate freeze to its TCBA. However, the disposition of the TRA's last monthly balance, is beyond the scope of this Resolution and, therefore, not addressed here. Edison's concern can be more appropriately addressed when the utilities file their ratemaking proposals for terminating the rate freeze consistent with D.97-10-057 and the Coordinating Commissioner's Ruling dated May 14, 1998 in R.94-04-031/1.94-04-032.

10. Parties were asked to offer other relevant changes not contained in the Proposed Resolution in their comments. Edison proposed to bifurcate the current debit entry related to *Distribution TRA Separated Revenue* into:
  - A debit entry equal to the annual applicable *Distribution PBR-related TRA Separated Revenues*, and
  - A debit entry equal to the annual applicable *Distribution PBR exclusions TRA Separated Revenue Requirement* amount divided by twelve.
11. Edison believes that this modification is necessary because Edison's total distribution rate is comprised of two components; a PBR-related Distribution rate based on the Commission-adopted rate index mechanism authorized in D.96-09-092 and a Distribution PBR Exclusions revenue requirement. Because the ratemaking treatment for Exclusions is separate from the Commission-adopted PBR ratemaking treatment, the TRA needs to be modified to bifurcate the Distribution revenue into the two separate debit entries to ensure that Edison collects its authorized Exclusions revenue requirements. The ED agrees with Edison's proposals and recommends the Commission adopt it.
12. Part VII.C. of SDG&E's Preliminary Statement was inadvertently omitted in Advice Letter 1052-E-A. It is appropriate that SDG&E resubmit Part VII.C. of its Preliminary Statement pursuant to this Resolution.
13. Utilities should be directed to file supplements to their Advice Letters to comply with this Resolution.
14. Pursuant to D.97-10-057, the utilities' Advice Letters and associated tariffs should become effective on January 1, 1998.

#### FINDINGS

1. Resolution E-3514 authorized utility tariff language that is not consistent with state law. Resolution E-3514 should be amended.
2. On June 26, 1998, the Energy Division mailed a Proposed Resolution to the parties on the service list in R.94-04-031/1.94-04-032, soliciting comments from the parties. The Proposed Resolution recommended that credit only balances may be transferred from the TRA into the TCBA. The Proposed Resolution also directed SDG&E to replace certain parts of its Preliminary Statement which was inadvertently omitted from the tariffs filed in compliance with Resolution E-3514.
3. PG&E, SDG&E, and Edison provided comments to the Proposed Resolution.



4. Edison's argument regarding the imbalance treatment of revenues from sales to the PX and costs of procuring energy from the PX is inaccurate and inconsistent with the law.
5. If negative balances from the TRA, whether generated by the entries related to the PX payment or any other components of the TRA, were to be allowed into the TCBA, effectively they would become transition costs eligible for cost recovery, which is inconsistent with the plain language of the statute.
6. Consistent with Section 367 of the Public Utilities Code, debit balances in the TRA may not be transferred to the TCBA.
7. Debit balances in the TRA may be carried forward in the TRA from month-to-month, but may not be transferred to the TCBA. Only credit balances in the TRA may be transferred to the TCBA. The debit balances in the TRA may earn interest at the three month commercial paper rate.
8. Edison's concern that TRA's monthly calculation could impact the recovery of costs incurred during the later part of the rate freeze, is mainly a concern about how the debit balance at the end of the rate freeze is treated.
9. The disposition of any debits left in the TRA at the end of the transition period is beyond the scope of this Resolution and is not addressed here.
10. Page 2, section 5.j. of Attachment 1 to Resolution E-3514, should be modified by striking the words "debit or" and "as appropriate".
11. Page 2, section 5.i. of Attachment 2 to Resolution E-3514, should be modified by striking the words "debit or" and "as appropriate". The word "PG&E" should be replaced with "Edison".
12. Edison's proposal to bifurcate its debit entry into the TRA related to the into a *PBR-related TRA Separated Revenue* and a *Distribution PBR Exclusions TRA Separated Revenue Requirement* is reasonable and should be adopted.
13. Within 10 days of the effective date of this Resolution, PG&E and Edison should file supplemental filings to their Streamlining Advice Letters which allow the transfer of credit only balances from the TRA into the TCBA and which allow the debit balances in the TRA to be carried forward in the TRA from month-to-month and to earn interest at the three-month commercial paper rate, as stated herein. Edison's Advice Letter shall bifurcate the debit entry related to the *Distribution TRA Separated Revenues*, as described herein.

14. Within 10 days after the effective date of this Resolution, SDG&E should file a supplement to Advice Letter 1052-E-A, with Part VII.C. of its Preliminary Statement, which was inadvertently omitted in Advice Letter 1052-E-A.
15. The Advice Letters and associated tariff sheets ordered by this Resolution should become effective on January 1, 1998, as ordered by D.97-10-057.

**THEREFORE, IT IS ORDERED THAT:**

1. Pacific Gas and Electric Company and Southern California Edison Company shall file, within 10 days after the effective date of this Resolution, supplements to their respective Streamlining Advice Letters that allow the transfer of credit only balances from the TRA into the TCBA and which allow the debit balances in the TRA to be carried forward in the TRA from month-to-month and to earn interest at the three-month commercial paper rate, as described herein. Southern California Edison Company shall modify applicable sections of its Preliminary Statements to show bifurcation of the debit entry related to the *Distribution TRA Separated Revenue* as described above. The Advice Letters shall be deemed effective January 1, 1998 after the Energy Division has reviewed them for compliance with this Resolution.
2. San Diego Gas & Electric shall file, within 10 days after the effective date of this Resolution, a supplement to Advice Letter 1052-E-A that allows SDG&E to file Part VII.C. of its Preliminary Statement (Hazardous Substance Clean-up Account). The Advice Letter shall be deemed effective January 1, 1998, after the Energy Division has reviewed it for compliance with this Resolution.
3. A copy of this Resolution shall be attached to the conformed copy of Resolution E-3514 in the Energy Division files.
4. This Resolution is effective today.