

PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

ENERGY DIVISION

**RESOLUTION E-3577
APRIL 22, 1999**

RESOLUTION

RESOLUTION E-3577. SAN DIEGO GAS & ELECTRIC COMPANY (SDG&E) REQUESTS APPROVAL TO REALLOCATE TRANSMISSION RATES SUBJECT TO REFUND AS A CREDIT TO THE UTILITY'S TRANSITION COST BALANCING ACCOUNT. APPROVED.

BY ADVICE LETTER 1115-E-A, FILED ON AUGUST 25, 1998.

SUMMARY

1. By Advice Letter 1115-E-A, filed on August 25, 1998, San Diego Gas & Electric (SDG&E) seeks Commission approval of its proposed methodology for crediting transmission rates subject to refund to the utility's Transition Cost Balancing Account (TCBA). The proposed credit totals approximately \$19.3 million (not including interest). This credit represents excess transmission revenue which SDG&E collected from ratepayers from April 1, 1998 through March 24, 1999. The overcollection, which occurred solely during the rate freeze period, stems from an offer of settlement reflecting a lower annual Transmission Revenue Requirement that was approved by the Federal Energy Regulatory Commission (FERC) in a letter ruling issued on March 12, 1999. The lower transmission rates replace the higher rates that were in place during the subject period.
2. No protests to Advice Letter 1115-E-A were received.
3. This resolution approves SDG&E's proposal to credit the excess transmission revenue to its TCBA by rate group and clarifies the interest calculation that shall be included as part of the credit. The amount of the overcollection, plus interest, shall be credited to the TCBA, as opposed to being refunded to retail customers, because SDG&E collected the entire excess transmission revenue during the rate freeze period and did not extend the rate freeze due to the overcollection.

BACKGROUND

1. On August 17, 1998, SDG&E filed Advice Letter 1115-B seeking Commission approval of its proposed methodology to refund to retail customers the difference between (i) transmission rates in effect beginning March 31, 1998 to implement transmission service under the Independent System Operator (ISO) and (ii) transmission rates filed with the FERC on July 31, 1998, in Docket No. ER97-2364-000, et seq. as a part of an offer of settlement. The transmission rates in effect since March 31, 1998 were predicated on a \$121.382 million annual Base Transmission Revenue Requirement, whereas the rates contained in SDG&E's offer of settlement reflect a lower annual Base Transmission Revenue Requirement of \$104 million.¹ SDG&E's Advice Letter proposes to recalculate the transmission revenue component by individual rate schedule based on a \$104 million revenue requirement. The recalculation would be performed for each month beginning April 1, 1998 through March 24, 1999 using actual customer billing determinants. The recalculated transmission revenue component would be deducted from the originally computed transmission revenue component, and the sum of the resulting differences for each month would then be credited to the TCBA.
2. On August 25, 1998, SDG&E filed supplemental Advice Letter 1115-E-A to replace Advice Letter 1115-B in its entirety. Advice Letter 1115-E-A clarifies the manner in which SDG&E intends to effectuate the refund, i.e., by crediting the TCBA, and requests Commission approval of the proposed reallocation in the form of a resolution. Advice Letter 1115-E-A does not materially differ from 1115-B. The only difference is that the supplemental advice letter characterizes the utility's proposal as a reallocation of revenue as opposed to a refund to retail customers.
3. On March 12, 1999, the FERC issued a letter ruling approving SDG&E's offer of settlement reflecting an annual Base Transmission Revenue Requirement of \$104 million in lieu of the \$121.382 million underlying SDG&E transmission rates in effect as of March 31, 1998. The ruling specifies that the settlement transmission rates are to be made effective as of March 31, 1998 and directs SDG&E to refund excess transmission revenue along with interest within 90 days of the ruling.

NOTICE

1. In accordance with Section III, Paragraph G, of General Order No. 96-A, SDG&E mailed copies of this advice letter to other utilities and interested parties. Public notice of this filing has been made by publication in the Commission's calendar.

¹ The Commission supported the offer of settlement in written comments submitted to the FERC on August 10, 1998.

PROTESTS

1. The Energy Division (ED) received no protests to Advice Letter 1115-E-A.

DISCUSSION

1. The ED has reviewed SDG&E's Advice Letter, the proposed methodology for crediting transmission rates subject to refund to the TCBA, as well as the FERC ruling approving SDG&E's offer of settlement.
2. The ED supports SDG&E's proposed methodology for crediting the transmission rate refund amount to the TCBA. The proposal to credit the TCBA, as opposed to directly refunding retail customers, is reasonable because the overcollection of transmission revenues occurred *solely* during the rate freeze period. Since the transmission rates reflecting the \$121.382 million annual Base Transmission Revenue Requirement were in effect exclusively during the rate freeze period, the overcollection of transmission revenues did not result in higher electricity rates charged to retail customers. Instead, the higher transmission rates resulted in a reduced residual Competitive Transition Charge (CTC) calculation per customer. The reduced CTC collection in turn resulted in reduced "headroom" in SDG&E's TCBA. Had the transmission rates reflecting the \$104 million annual Base Transmission Revenue Requirement contained in the offer of settlement been in effect March 31, 1998 in lieu of the higher transmission rates, SDG&E's CTC collection and "headroom" amount would have been higher. In addition, SDG&E's overcollection did not extend the rate freeze beyond what it would have been but for the overcollection. Applying the refund amount as a credit to the TCBA at this time will benefit retail ratepayers by expediting the end of the rate freeze.
3. SDG&E's proposed methodology provides for equitable treatment of the various rate groups that were charged the higher transmission rate relative to the rates contained in the offer of settlement. As discussed in the Background section, SDG&E proposed to allocate the refund amount by rate schedule using actual customer billing determinants. This methodology will ensure that no particular rate group is allocated a disproportionate share of the refund amount.
4. With respect to the applicability of interest on the excess revenue, SDG&E's Advice Letter does not explicitly indicate how the interest will be calculated. As a result of charging higher transmission rates between March 31, 1998 through March 24, 1999, fewer funds were credited per month to SDG&E's TCBA to offset debit entries and to accelerate stranded cost recovery. In contrast, had the lower settlement transmission rates been in effect during the same period, more CTC funds would have been available to credit the TCBA, thereby reducing interest charges on the remaining TCBA balance, allowing for accelerated stranded cost recovery, and expediting the end of the rate freeze for SDG&E ratepayers. In order to hold the TCBA and ratepayers indifferent to these impacts, the ED finds that interest, calculated in

accordance with 18 C.F.R. Section 35.19a, must be included in the total amount to be credited to the TCBA.

5. With respect to recording the credit entry (the reallocation amount plus interest) in the TCBA, SDG&E's Advice Letter does not identify the specific TCBA account which would be credited. In the absence of such a reference, the ED notes that the credit should be made to the CTC Revenue Account.² Additionally, the credit entry should be identified as a separate line item in SDG&E's monthly TCBA report which is filed with the ED. This separate accounting entry will allow ED staff to readily identify this one-time entry stemming from the settlement proceeding.
6. The ED recommends that SDG&E's request be approved as discussed herein. SDG&E's request is reasonable.

COMMENTS

1. As Advice Letter 1115-E-A is uncontested and this Resolution grants the relief requested (as discussed herein), in accordance with Public Utilities Code 311(g)(2), the otherwise applicable 30-day period for public review and comment is hereby waived.

FINDINGS

1. On August 18, 1998, SDG&E filed Advice Letter 1115-E requesting Commission approval of its proposed methodology for crediting transmission rates subject to refund to the utility's TCBA.
2. On August 25, 1998, SDG&E filed supplemental Advice Letter 1115-E-A which replaced Advice Letter 1115-E in its entirety. Advice Letter 1115-E-A clarifies the manner in which SDG&E intends to credit the refund amount to the TCBA and requests Commission approval of the proposed reallocation in the form of a resolution.
3. Beginning April 1, 1998, concurrent with the commencement of ISO and PX operations, SDG&E collected transmission revenues (subject to refund) based on a \$121.382 million annual Base Transmission Revenue Requirement.
4. On March 12, 1999, the FERC issued a letter ruling approving SDG&E's offer of settlement reflecting an annual Base Transmission Revenue Requirement of \$104 million in lieu of the \$121.382 million underlying SDG&E transmission rates in effect as of March 31, 1998. The ruling specifies that the settlement transmission

² For purposes of tracking the credit by rate group, SDG&E should also record the credit in the Rate Group CTC Revenue Sub-Account.

April 22, 1999

rates are to be made effective as of March 31, 1998 and directs SDG&E to refund excess transmission revenue along with interest within 90 days of the ruling.

5. According to SDG&E, the amount of excess transmission revenue that was collected between April 1, 1998 through March 24, 1999 totals approximately \$19.3 million.³
6. SDG&E's overcollection of transmission revenues occurred solely during the rate freeze period and had the effect of reducing SDG&E's "headroom" in the TCBA. Applying the refund amount as a credit to the TCBA at this time will benefit retail ratepayers by expediting the end of the rate freeze.
7. SDG&E's proposed methodology to credit excess transmission revenues to the TCBA by rate group is reasonable as discussed herein.

THEREFORE, IT IS ORDERED THAT:

1. SDG&E's Advice Letter 1115-E-A is approved as discussed herein, subject to Commission decisions in Application Nos. 99-01-016, 99-01-019, 99-01-034, and 99-02-029, to the extent balances exist in the TCBA at the end of the rate freeze period.
2. This resolution is effective today.

I certify that the forgoing resolution was duly introduced, passed, and adopted at a conference of the Public Utilities Commission of the State of California held on April 22, 1999. The following Commissioners voting favorably thereon:



WESLEY M. FRANKLIN
Executive Director

RICHARD A. BILAS
President
HENRY M. DUQUE
JOSIAH L. NEEPER
Commissioners

³ The \$19.3 million figure is an estimate of the overcollection. This estimate consists of two parts: (i) \$18,315,427 million, which is based on actual customer billing determinants for the period April 1, 1998 through February 1999; and (ii) \$1 - 1.5 million covering March 1999, which represents an estimate of the excess revenue for that month as actual customer billing determinants were not available as of the writing of this resolution.