

PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

ENERGY DIVISION

**RESOLUTION E-3580
FEBRUARY 4, 1999**

RESOLUTION

RESOLUTION E-3580. PACIFIC GAS AND ELECTRIC COMPANY (PG&E) REQUESTS AUTHORIZATION TO ESTABLISH A REALLOCATED RESIDUAL ADMINISTRATIVE AND GENERAL MEMORANDUM ACCOUNT (RRAGMA) FOR THE PERIOD BETWEEN JULY 1, 1998 AND DECEMBER 31, 1998. DENIED.

BY ADVICE LETTER 1784-E FILED JUNE 30, 1998

Summary

1. On June 30, 1998, Pacific Gas and Electric Company (PG&E) filed Advice Letter 1784-E, requesting authority to establish a reallocated residual administrative and general memorandum account (RRAGMA).
2. The office of Ratepayer Advocates (ORA) and Enron Corporation (Enron) filed protests.
3. PG&E responded to both ORA's and Enron's protests and filed supplemental Advice Letter 1784-E-A on August 18, 1998.
4. This resolution denies PG&E's request because it is inconsistent with D.97-08-056.

Background

1. Ordering Paragraph 16 of Decision (D.) 97-08-056 required the Assigned Commissioners to develop a streamlined process for allocating certain fixed administrative and general (A&G) costs from generation to distribution rates. Those fixed A&G costs are associated with divested generation plants that may continue following divestiture and the end of the period during which the utility operates the divested plant.
2. Through a series of Assigned Commissioners' Rulings (ACRs) and an Administrative Law Judge's (ALJ's) Ruling, the utilities were directed to present proposals for reallocation of fixed and continuing A&G costs in various proceedings.

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3. On July 1, 1998, PG&E divested three of its plants: Moss Landing, Morro Bay, and Oakland, collectively known as the Wave 1 Plants.
4. PG&E filed an exhibit in its 1999 General Rate Case (GRC) Application (A.) 97-12-020 describing its proposed reallocation of residual A&G costs as a result of the divestiture of the Wave 1 Plants. Because PG&E's GRC was not expected to become effective until January 1, 1999, PG&E filed Advice Letter 1784-E, requesting establishment of a RRAGMA, to record for the period July 1, 1998 through December 31, 1998, the residual A&G expense and the revenue requirement for the residual common and general plant that is to be reallocated as a result of the divestiture of the Wave 1 Plants.
5. Pursuant to protests filed by ORA and Enron, PG&E filed supplemental Advice Letter 1784-E-A on August 18, 1998.

Notice

Notice of PG&E's Advice Letter 1784-E was made by publication in the Commission Daily Calendar and by mailing copies to adjacent utilities, interested parties, and the Service List in A. 96-12-009 et al.

Protests

1. ORA filed a protest proposing to clarify the proposed language to "better capture the intent of what was ordered by D.97-08-056." ORA recommends to replace the word "residual" with "fixed and continuing".
2. ORA also opposes booking any expenses to the RRAGMA for the costs that were incurred before the account was created. ORA believes that the rule against retroactive ratemaking prohibits this.
3. Enron protested that the language in PG&E's proposed Preliminary Statement is inconsistent with the stated intent in PG&E's advice letter regarding the recovery of the balance in RRAGMA. Enron believes that PG&E's Preliminary Statement should be clarified to reflect that PG&E is not guaranteed recovery, but only the opportunity to seek recovery of the balance in the RRAGMA. Enron also recommends that the Commission clarify when and in what proceeding the recovery of the RRAGMA balance will be determined.

Discussion

1. In supplemental Advice Letter 1784-E-A¹, PG&E clarified its proposed tariffs to state that the establishment of the RRAGMA "only permits PG&E to seek recovery of the recorded costs at a later date, and that the establishment of the account does not guarantee recovery of any costs recorded in this account, but rather, allows PG&E to seek recovery of them." Enron's protest regarding the recovery of the RRAGMA balance is therefore moot. PG&E also replaced the words "residual" with "fixed and continuing" per ORA's recommendation. ORA's protest regarding the language modification is also moot.
2. In its response to ORA's protest, PG&E did not offer any explanation regarding the effective date of its proposed Advice Letter. ORA was concerned that retroactive ratemaking prohibits PG&E from booking any expenses into its memorandum account prior to obtaining Commission authority.
3. In allocating fixed A&G costs to generation, the Commission in D.97-08-056 stated:

If they sell generation facilities, the utilities will have opportunities to reduce their overheads. In addition, the utilities may be able to recover fixed A&G as part of the two-year service contract between utilities and purchasers of generation plant required under Section 363. (slip opinion, p.23)
4. The Commission also noted that :

...some of these fixed A&G costs may remain following divestiture and the end of the period during which the utility operates the plant on behalf of a purchaser. (slip opinion, p.24)

To the extent that the fixed A&G costs we have allocated to generation are truly fixed and continue to exist following this period, we will review and reallocate continuing fixed A&G costs to distribution using a streamlined procedure. (slip opinion p.24)
5. D.97-08-056 identified various ways the utilities may reduce or recover their fixed A&G costs related to their divested plants. D.97-08-056 noted that during the period when the utilities operate their divested plants on behalf of the purchaser they can reduce their overhead by employing cost saving practices, improving the A&G process, or downsizing. The utilities can also recover some of their fixed A&G costs as part of the service contract with the purchaser of their plants. To the extent that some fixed A&G costs may remain after the utility contract with the purchaser is expired, the unbundling decision provided that the utilities may use the streamlined process to propose reallocation of those costs.

¹ PG&E submitted a substitute sheet on August 31, 1998.

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6. PG&E divested its Wave 1 Plants on July 1, 1998. Accordingly, starting with the date of the transfer of ownership, PG&E has been under an Operating and Maintenance Agreement with the purchaser of those plants. During the term of this Agreement, PG&E is expected to recover its fixed A&G expenses through those contracts and also reduce its overhead by implementing various cost reduction programs. PG&E is not authorized to request any further recovery of its fixed A&G costs during the term which it operates the plants on behalf of the buyer. It would be contradictory to D.97-08-056 to grant PG&E's request of establishing a memorandum account to book fixed A&G costs between July 1, 1998 and December 31, 1998, for future recovery, when such recovery is not authorized by the Commission. The ED believes that PG&E's request to establish a RRAGMA to book fixed and continuing A&G costs for Wave 1 Plants between July 1, 1998, and December 31, 1998, is inconsistent with D. 97-08-056 and should be denied.
7. On December 18, 1998, the draft Resolution of the ED in this matter was mailed to the parties in accordance with Public Utilities (PU) Code Section 311 (g). Comments were filed on January 4, 1999, by Enron and on January 5, 1999, by PG&E. Enron supported the ED's findings that "PG&E's proposal to book fixed A&G costs between July 1, and December 31, 1998 would be contrary to D.97-08-056 because such recovery is not authorized by the Commission." PG&E noted in its comments that "it did not receive the ED's notice for comments until December 30, 1998. Due to the holidays, PG&E was unable to address this issue until January 5, 1999. Therefore PG&E requests leave to submit its comments late." The ED accepts PG&E's late-filed comments.
8. PG&E's comments note that "Approval of the draft resolution would prematurely adopt ORA's interpretation of D.97-08-056 as described in its GRC opening brief filed November 17, 1999, without benefit of the GRC record and other parties' positions. It would be inappropriate for this matter to be decided by resolution here instead of in the GRC where it has been litigated." The ED believes that PG&E's request to establish a RRAGMA should be rejected because D.97-08-056 did not provide for any reallocation of fixed A&G cost during the term of the O&M contract. This issue was noted in D. 98-12-038²:

"We note that D.97-08-056 prohibits reallocation of fixed administrative and general (A&G) expenses during the two-year term of contracts entered into under Section 363. (D.97-08-056, mimeo., at pp23-24.)"

Therefore, the ED recommends rejecting PG&E's request to establish a RRAGMA.

Findings

1. On June 30, 1998, PG&E filed Advice Letter 1784-E, requesting authority to establish a RRAGMA.

² Slip opinion, page 9

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2. ORA and Enron filed protests to PG&E's Advice Letter 1784-E.
3. PG&E responded to ORA's and Enron's protests and filed supplemental Advice Letter 1784-E-A.
4. D.97-08-056 stated that to the extent that some fixed A&G cost may remain after the period during which the utility operates the plant on behalf of the purchaser, the utilities may use the streamlined process to propose reallocation of those costs.
5. PG&E filed an exhibit in its 1999 General Rate Case (GRC) Application (A.) 97-12-020 describing its proposed reallocation of residual A&G costs as a result of the divestiture of the Wave 1 Plants. Because PG&E's GRC was not expected to become effective until January 1, 1999, PG&E filed Advice Letter 1784-E, requesting establishment of a RRAGMA, to record for the period July 1, 1998 through December 31, 1998, the residual A&G expense and the revenue requirement for the residual common and general plant to be reallocated as a result of the divestiture of the Wave 1 Plants.
6. It would be contradictory to D.97-08-056 to grant PG&E's request to establish a memorandum account to book fixed A&G costs between July 1, 1998 and December 31, 1998, for future recovery, when such recovery is not authorized by the Commission.
7. PG&E's request to establish a RRAGMA to book fixed and continuing A&G costs between July 1 and December 31, 1998, is inconsistent with D.97-08-056 and should be denied.

Therefore it is ordered that:

1. PG&E's request to establish a RRAGMA to book costs between July 1 and December 31, 1998, is denied.

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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 February 4, 1999; the following Commissioners voting favorably thereon:



WESLEY M. FRANKLIN
Executive Director

RICHARD A. BILAS
President

HENRY M. DUQUE
JOSIAH L. NEEPER
Commissioners